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MARKETING BEHAVIOUR OF CHINESE ENTERPRISES - AN EMPIRICAL STUDY

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To
My husband and daughter for their support
and
My parents who made it possible

ABSTRACT

China and Chinese enterprises have undergone a tremendous change in the past 20 years. From not recognising marketing and markets (a planned economy) to recognising marketing and markets; from a seller market to a buyer market, further developing to international competition, China's market-oriented economy has emerged in just over 20 years. The developing speed of China's market is unprecedented. The marketing concept appears to offer an approach to management that is dramatically new to China but much needed in its current state of development.

This thesis reports the results of an empirical study of the marketing behaviour of various types of Chinese enterprises and their application of the marketing concept. A mail survey of 820 Chinese enterprises across seven provinces and two cities was conducted, with a response rate of 54%. Correlation, factor analysis, cluster analysis and the *Chi-square* test were performed to examine the significance of five specific dimensions: (1) the marketing department and the marketing competitiveness of Chinese enterprises; (2) government control and marketing behaviour; (3) the structure of ownership of enterprises and marketing behaviour; (4) the marketing concept and marketing orientation; and (5) the employment of the Western marketing concept.

Although the existing literature on Chinese industrial reform generally assumes that the enterprise's ownership has a significant effect on enterprises' marketing behaviour and market orientation, this research provides evidence that this assumption is not supported. The research develops a new idea to explore Chinese industrial enterprises' marketing behaviour and provides a finding that the type of enterprises' ownership is not a major factor to affect enterprises' marketing behaviour in today's China.

Reduced government control, intense competition and the emergence of a buyer's market have forced all types of Chinese enterprises to employ the Western marketing concept and Western marketing strategies, and to move towards a market orientation. However, the research shows that there are common misunderstandings about the marketing concept among Chinese enterprises, and that Chinese enterprises' marketing behaviour is still not very well developed. Moreover, due to China's distinctive social and cultural features (*quo qing*), the Western marketing concept and Western marketing strategies have to be modified if they are to be implemented in China.

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1 INTRODUCTION

- 1.1 *Overview*
- 1.2 *Research Purpose*
- 1.3 *Research Hypotheses*
- 1.4 *Research Methodology*
- 1.5 *Significance of the Research*
- 1.6 *Organisation of the Thesis*

The dramatic transformation of China's economy since the late 1970s has attracted increasing attention from both the business world and the academic community. There are an increasing number of empirical studies which seek to explain this transformation. This research is focused on the micro-level of Chinese industrial enterprises' marketing behaviour. The purpose of the research is to investigate empirically a number of key issues related to Chinese enterprises' marketing behaviour and their application of the marketing concept in the context of the Chinese business environment.

More specifically, the research seeks to:

- to identify the influence of the marketing department's competence on the enterprise's marketing activities, and the influence of marketing activities on the enterprise's competitiveness;
- to explore the influence of government control on the enterprise's marketing activities and attitude towards marketing orientation;
- to examine the influence of the enterprise's ownership structure on the adoption of the marketing concept;
- to examine the extent to which Chinese enterprises currently accept the marketing concept and have developed a marketing orientation;
- to assess the applicability of the marketing concept and marketing strategy as developed in the Western context to China's distinctive characteristics (*guoqing*¹).

¹ According to the Chinese – English Dictionary (Foreign Language Teaching and Research Press, 1997: 453), the English meaning of *guoqing* is “the condition of a country; national

In order to provide the necessary background, this chapter begins with a brief overview of Chinese enterprises' behaviour in the transition economy, focusing in particular on the differences in terms of marketing behaviour between the pre-reform and post-reform stages.

The implementation of market-oriented reforms in China, including the opening of the economy to world markets, has been associated with a period of rapid economic growth and dramatic structural change in the world's largest developing country (Sun *et al.*, 1999: 616). During the 1979-1996 period, China's Gross Domestic Product (GDP) grew by an average of 9.9 per cent annually (SSB, 1997). When compared with other developing countries as well as the transition economies of Eastern Europe, China offers a striking example of success (Berthelemy and Demurger, 2000: 140). Because of China's rapid economic development and increasingly important position in world business, there is an increasing demand in the West for a better understanding of marketing practice in China and Chinese enterprises' marketing behaviour.

In this thesis, a number of hypotheses are developed and tested through descriptive statistics, bivariate and multivariate statistics, including factor analysis, cluster analysis and *Chi-square* test, to reveal the relationships among marketing activities, the marketing department, marketing orientation, enterprise ownership, government control and competitiveness. The data were collected from responses to a large survey of 820 Chinese enterprises. This research aims to contribute to the knowledge of marketing behaviour under transition economy in Chinese enterprises. At the end of this chapter, organisation of this thesis is outlined to give a general view of each chapter.

condition." Understanding China's *guoqing* (distinctive characteristics) is therefore crucial for Western marketers who want to deliver a product to the Chinese market (Yan, 1994: 67).

1.1 OVERVIEW

Since 1979, China has embarked on a radical reform of its economic system and introduced a number of policies designed to change the way in which Chinese enterprises as the transition from a planned economy to a market-oriented economy is undertaken (Zhang, 1992, Jefferson and Singh, 1999: 8). This transition has resulted in a rapid increase in the number of privately owned enterprises as well as township and village enterprises. There were 1.36 million private enterprises by the end of 1998 (People's Daily, 1999). The backbone of China's industrial sector – consisting of 305,000 state-owned enterprises – has also undergone far-reaching changes since the mid-1980s (Sun, 2000: 379).

The Chinese pre-reform economic system was formed in the 1950s on the basis of the Soviet model. Marketing played almost no role (until 1978) under China's planning system (Zhang, 1992; Deng and Zhao, 1995). Gao Shangyuan, a well-know economist in China, identified four main flaws of this system:

“First, centralisation is excessive, management is excessive, and the scope and proportion of command plans are too great. Enterprises need more autonomy.

Second, commodity production, the value of law and the role of the market are overlooked and separated. It makes enterprises unwilling to take the initiative in learning about the market.

Third, economic leverage has not been fully applied. Since command plans rely excessively on management, the state is responsible for issuing enterprise production tasks, distributing products, allocating equipment, supplying materials, assigning personnel, collecting profits, and assuming losses. With enterprises lacking both vitality and incentive, it is difficult for economic levers to play a role.

Fourth, a strict system of responsibility in planning has not been established. Since capital funds are supplied free, this situation has encouraged people to scramble enthusiastically for investments, projects, and materials. Furthermore, the commodity turnover cycle is slow and expenses are high.”

(Gao, 1987: 133)

Under these circumstances, enterprises, especially state-owned enterprises, had little freedom of action with regard to making production plans, choosing inputs, setting prices, marketing products, and disposing of profits and losses. They had strong production departments and material supply departments, which included planning, purchase, stock management and control sectors, but had no marketing departments. The creation of economic utilities was largely confined to the production sector. Marketing was thus largely ignored in pre-reform China. Such a system, in which there were no penalties for inefficiency or rewards for efficiency, provided no incentives, and thus it bred built-in bureaucratisation and waste (Chen, 1987; Mai and Perkins, 1997).

The “Decision of the Central Committee of the Communist Party of China on the Reform of the Economic Structure”, approved by the Third Plenary Session of the Twelfth Party Congress in 1984, addressed the theory of a “socialist market economy” and sought to establish a favourable environment for the employment of marketing (Kuang, 1990). Within the last 20 years, marketing has undergone a radical transformation as a market-orientated system has gradually replaced the mandatory planning system. This process has transferred authority from central planners to local governments and enterprise managers, and has expanded the role of prices and market allocation. The “planned economy under public ownership” was replaced by a “socialist market economy” (Liu, 1992).

As a consequence, various marketing-related academic activities, such as training, teaching and research in marketing, have been encouraged. Enterprises

have also set up marketing departments and have become interested in developing marketing approaches suitable for the changing environment. Enterprises and government believe that the market-orientated system will increase microeconomic efficiency.

However, the changing environment has dominated enterprise development. In the early stage of the reform, enterprises' production grew very rapidly because it was a seller's market with an overall shortage of supply. Enterprises faced increased market competition and some firms suffered heavy financial losses due to poor marketing practice (Qu, 1998). These trends mean that there is an urgent need for theoretical and empirical research into marketing in China.

1.2 RESEARCH PURPOSE

Marketing behaviour is both a business activity and an economic phenomenon. A number of studies have sought to explain the various aspects of China's recent economic reform and the accompanying development of Chinese enterprises. Some researchers have studied the area of Chinese enterprises' marketing behaviour. For example, Whybark (1994) and Kinnell *et al.* (1994) have examined the issue of market orientation in the Chinese setting. Liu (1991) conducted a study of Chinese market development and marketing behaviour between 1987 and 1991. Deng and Dart (1995, 1999) carried out an empirical study of the market orientation of various types of Chinese enterprises according to their size, location, ownership and sector. These contributions have revealed the nature and dynamics of the embryonic stage of market development and marketing-related behaviour in China.

Since then, the progress of China's reform is still going on. This research focuses on the marketing behaviour of Chinese enterprises by examining marketing practice at the enterprise level. In particular, it seeks to examine a number of issues related to the application of the marketing concept by analysing the relationships between the enterprise's marketing department,

marketing activities, marketing competitiveness, government control, the structure of ownership of the enterprise, and marketing orientation. It also seeks to highlight the weakness of existing studies of Chinese industrial enterprises' marketing behaviour (activity) (Liu, 1991). It is hoped that the resulting analysis, by describing the current status of marketing in modern China, will help Western firms to conduct business with China more effectively.

In this research, the key variables (the marketing department, marketing activities, marketing competitiveness, government control, enterprise's ownership and marketing orientation) will be measured according to the subjective and objective views of the practitioners who participated in the survey and who have previously been involved in the implementation of marketing activities in their organisations.

The formal marketing research process can be viewed as a series of steps, as exemplified by the nine steps defined by Kinnear and Taylor (1991: 64), the seven steps identified by Boyd *et al.*, 1989: 38) and the six steps identified by Wright and Crimp (2000: 60). In this study, we distinguish between six steps (involving both qualitative and quantitative methods) as follows:

- Identifying the major dimensions currently discussed in the literature and a range of factors (the marketing department, marketing activities, marketing competitiveness, government control, enterprise's ownership and marketing orientation that together constitute the enterprise's marketing behaviour (see Chapters 1, 2 and 3).
- Applying the non-probability sampling to gather data from 7 Provinces and 2 cities in China (see Chapter 4).
- Examining the validity of the questionnaire and pre-testing interviews before mailing the questionnaire. We use a mailed survey to identify the

characteristics of Chinese enterprises' marketing behaviour, employing the previously identified dimensions as a guide (see Chapter 4).

- Analysing the survey data. First, we select the variables by means of Pearson's correlation analysis for factor analysis. Secondly, we extract the factors by factor analysis to identify the dimensions underlying the survey data. Then, using factors for the original variables, we produce a range of clusters in order to identify strong and weak groups (according to marketing department, marketing activities, marketing competitiveness and government control factors) (see Chapters 5, 6 and 7).
- Testing the research hypotheses by using *Chi-square* tests to identify significant differences of distinction in marketing behaviour between the cluster groups of marketing department, marketing activities, marketing competitiveness and government control (see Chapter 7).
- Generating the key features in order to understand the marketing behaviour of Chinese enterprises under economic reform based on the relationships among the marketing department, marketing activities, marketing competitiveness, government control, enterprise's ownership and marketing orientation (see Chapters 8 and 9).

1.3 RESEARCH HYPOTHESES

Since the late 1980s, a series of surveys have sought to trace the impacts of China's economic reforms on all aspects of economic activities, including changes in the behaviour of industrial enterprises. For example, in order to investigate the progress and outcome of reform in state-owned enterprises and to inform future reforms, the Chinese Academy of Social Sciences, the University of Oxford, the University of Michigan and the University of California launched a collaborative research project in 1988. Chinese scholars Lu, Zhang and Yan carried out a survey in 1988 and concluded that sales-orientated and customer-

orientated behaviour could be found among various types of Chinese enterprise (Lu, Zhang and Yan, 1988). Liu (1991) conducted a postal survey involving 636 Chinese enterprises and 254 UK firms in 1989 to identify differences between UK and Chinese enterprises in terms of marketing behaviour and market structure. Significant changes in Chinese enterprise behaviour and enterprise control have also been identified by Western and Chinese academics (e.g. Threlli, 1983; Holton, 1985; Byrd, 1986, 1987; Tidrick, Lu Zhang and Yan, 1988; Liu, 1991, Deng and Dart, 1995 and Nolan and Wang, 1999).

Based on the above research, this study examines a number of issues related to the application of the marketing concept and marketing behaviour in Chinese enterprises. The key questions to be investigated are: What is the competence of the marketing department? What are the relationships between the marketing department, marketing activities, marketing competitiveness, government control, enterprise's ownership and marketing orientation? Are there different attitudes and behaviours toward marketing among different types of enterprise? To what extent do Western concepts of marketing and strategies work in China? Some issues and the factors identified by Liu (1991) and Deng and Dart (1995, 1999) are considered in the depth in this research. This leads to a number of research hypotheses.

China's economic reform is based on macro-economic adjustment, macro-environment change, and the phasing of a number of specific reform measures. Two basic principles underpin economic reform. The first is the need to shift from a planning mechanism to a market mechanism. This means that enterprises are faced with a series of major environmental changes, especially systemic changes. The second principle is the need to shift operational decision-making power from central planners to local governments and enterprise managers in order to increase micro-economic efficiency. Through the extension of their autonomy, enterprises have ceased to be the appendages of government bureaux but are independent economic entities. In order to meet this challenge, enterprises have had to make great changes in their operation concept, operation

strategy and organisational structure (Liu 1991, Wu, 1998). In particular, they have established marketing departments to take responsibility for developing marketing strategies, co-ordinating with other functional departments and monitoring their day-to-day marketing activities. “How effectively a company’s marketing management can plan and implement marketing strategies depends on how the marketing unit is organised” (Dibb *et al.*, 2001). Thus, the organisational structure and operation of the marketing department is of crucial importance. Previous researchers have studied the impact of one business functional area’s competence on the firm’s overall performance (Capon *et al.*, 1990, Drucker, 1973, Tunalv, 1992). The key objective of this research is to identify the influence of the marketing department’s competence on the enterprise’s marketing activities. Therefore, the first hypothesis tested here is:

H1: Enterprises with a strong marketing department will pursue strong marketing activities than enterprises with a weak marketing department.

The expansion of enterprises’ autonomy has stimulated their marketing activities and aggravated marketing competition. Enterprises now have to be competitive to sell their products and services in the market place. Their primary concern has shifted from implementing the production plans determined by the government to satisfying customer needs and wants. Marketing competition reduces profits, creates financial pressures that induce technical innovations, promotes economising behaviour, and stimulates fresh rounds of market-leaning institutional change (Jefferson and Rawski, 1999: 68). Competitive pressures compel enterprises to search for effective marketing strategies and conduct positive marketing activities in order to enhance their competitiveness. This suggests a second hypothesis:

H2: Enterprises with strong marketing activities will have a stronger marketing competitiveness than enterprises with weak marketing activities.

China's economic reforms have gradually transferred authority from central planners to local governments and enterprise managers. Central government has reduced its control of, and intervention in, enterprises' management in such areas as marketing planning, production, price, and the distribution channel. Consequently, enterprises now have much more autonomy in these areas (Liu, 1991). Deng and Dart (1999), in their empirical study of the market orientation of various types of Chinese enterprises, conclude that "many enterprises in the uncontrolled sectors are in the process of developing the type of market orientation that underlies the practice of modern marketing" (Deng and Dart, 1999). Taking the research of Liu (1991) and Deng and Dart (1995) into consideration, therefore, we formulate a third and a fourth hypothesis:

H3: Enterprises with strong marketing activities are weak government-controlled than enterprises with weak marketing activities.

H4: Enterprises which are weak government-controlled are more likely to adopt a marketing orientation than enterprises subject to strong government control.

China's reform policy started an ongoing process of upgrading within state-owned enterprises and allowed the existence of manifold enterprise forms. This has been accomplished partly through independent state-owned enterprise initiatives and partly through enterprises of different forms. A multi-ownership system has been established to include state-owned enterprises, urban collective enterprises, township-village collective enterprises, small private enterprises, joint venture enterprises, and joint stock system enterprises (Chinese Statistics Month Books, 1997). It is widely thought that township-village enterprises are the chief source of China's new industrial revolution (Liu, 1991, Jefferson, 1993, Wu, 1995, World Bank, 1996a, Nolan and Wang, 1999). Jefferson (1993) writes, "The rapid growth of China's TVE sector has been critical to the success of that country's transition to a market economy". State-owned enterprises, particularly small and medium-size firms, have been gradually replaced by

township-village enterprises (Weitzman and Xu, 1994). Deng and Dart (1999) also observe that private/collective enterprises display a substantially greater market orientation than state owned enterprises. Therefore, the fifth hypothesis is:

H5: State-owned enterprises have a weaker marketing orientation than township-village and private enterprises.

It is important to distinguish between the selling concept and the marketing concept. As Armstrong and Kotler (2000: 19) point out, “the selling concept starts with the factory, focuses on the company’s existing products ... In contrast, the marketing concept starts with a well-defined market, focuses on customer needs, coordinates all the marketing activities affecting customers”. Deng and Dart (1995) conducted personal interviews in 400 selected Chinese enterprises on the issue of firms’ marketing practice. They found evidence of the growing importance of a number of marketing activities in China. These activities are, in descending order of importance: (1) inventory control; (2) product support services; (3) purchasing; (4) sales forecasting; (5) marketing research and (6) pricing. These results show that Chinese enterprises pay more attention to internal (factory) variables such as product support services and sales forecasting than to external variables such as customer needs and wants, and marketing research. Thus, we formulate a sixth hypothesis:

H6: There is likely to be confusion between the marketing concept and the selling concept in Chinese enterprises.

Due to China’s “open door” policy and economic reform process, the marketing concept and various western marketing practices have been introduced. However, former Communist Party leader Deng Xiaoping issued a Communist Party directive in 1984 stating that “western cultures and ideas should be adopted only if they fit *guoqing*. Good ideas applicable in China should be promoted; corrupted and inapplicable ideas should be discarded” (World Bank,

1992). The differences between China's transition economy and the mature market economies of Western countries inevitably place restrictions on applicability of Western marketing strategies in China. Thus, Western companies seeking to gain a part of this growing market have to adapt to *guoqing*. This leads to the next hypothesis:

H7: The marketing concept, marketing strategies from Western context have to be to adopted China's distinctive characteristics (*guoqing*).

Seven hypotheses developed for the study are listed as follows:

- H1 Enterprises with a strong marketing department will pursue strong marketing activities than enterprises with a weak marketing department.
- H2 Enterprises with strong marketing activities will have a stronger marketing competitiveness then enterprises with weak marketing activities.
- H3 Enterprises with strong marketing activities are weak government-controlled than enterprises with weak marketing activities.
- H4 Enterprises which are weak government-controlled are more likely to adopt a marketing orientation than enterprises subject to strong government controlled.
- H5 State-owned enterprises have a weaker marketing orientation than township-village and private enterprises.
- H6 There is likely to be confusion between the marketing concept and the selling concept in Chinese enterprises.
- H7 The marketing concept, marketing strategy from Western context have to be to adopted China's distinctive characteristics (*guoqing*).

"The marketing of products or services effectively requires many activities. Some are performed by producers; some are accomplished by intermediaries." (Dibb, Simkin, Pride and Ferrell, 2001: 7) The above seven hypotheses relate to marketing in terms of five specific factors (variables). H1 and H2 are connected with the enterprise's marketing department (marketing management, etc.), marketing activities and competitiveness. H3 and H4 are linked to the

government control of marketing practice. H5 is related to the enterprise's ownership structure. The marketing concept and marketing orientation are examined by H6. H7 deals with the adoption of the Western marketing concept by Chinese enterprises.

1.4 RESEARCH METHODOLOGY

The purpose of this research is to examine the marketing practice at the enterprise level in China by testing seven hypotheses (listed above) which relate to Chinese enterprises' marketing behaviour. The hypotheses are developed through a review of the literature and an investigation of the nature and scope of Chinese firms' marketing activities and environments.

In order to achieve the objectives of this research, an empirical investigation of Chinese enterprises' marketing behaviour was undertaken. The non-probability sampling procedure is used in this research. However, a number of practical difficulties were encountered: large geographical distances were involved in the conduct of this survey; not all the respondents surveyed were familiar with this kind of research; and the government in China has continued to place strict restrictions on the conduct of marketing research by or for foreign companies (see Section 4.2.1.1). There were thus difficulties in obtaining data from the selected Chinese enterprises.

As Figure 4-3 shows (see Section 4.7), the methodology employed in this research consisted of three inter-related phases. First, a literature review was undertaken focusing on: the evolution of the marketing concept and marketing orientation, the changing business environment, how these changes have affected marketing practices and the development of marketing theories, and the background of China's economic system and marketing applications. A number of initial research questions and hypotheses were generated, and the information gleaned from the literature served as the foundation for the development of the research questionnaire, which was later used as the measuring instrument for the

research. To test both the validity and comprehensive nature of these questions, interviews were conducted with academics as well as marketing managers. A validation and pre-test were employed to enhance the reliability and validity of the research before the final delivery of the questionnaire. Data for the validation were obtained from a total of seven knowledgeable experts including academics and industrial practitioners in China and the UK. The pre-testing was carried out in the UK. The 16 participants were chosen from two inward Chinese trade delegations. Face-to-face interviews yielded much useful information about the respondents' perception of marketing behaviour.

Secondly, this research was decided to use the membership lists of *China Council for the Promotion of International Trade (CCPIT)*¹ as the sample frame for the survey. The non-probability sampling procedure is used in this research. According to the results of the validation and pre-testing, the questionnaire was revised and the final version was posted in November 1996 to 820 respondents in seven provinces and two cities, including Hubei, Jiangsu, Sichuan, Shandong, Hebei, Shan'xi, Liaoning provinces and Shanghai and Shenzhen cities, with a subsequent follow-up to non-respondents. 260 usable questionnaires were eventually gathered.

Thirdly, the resulting data were analysed by using the SPSS software package. They were first examined by using descriptive statistics such as frequency tables. Pearson's correlation analysis was then used to examine the relationship between variables, in addition to multivariate analysis (factor analysis and cluster analysis). The results helped to clarify the research model and subsequently supported the interpretation of the results through the statistical procedures of the *Chi-square* test. The research methodology will be explained in greater detail in Chapter 4.

¹ As the largest trade promotion organisation in China, CCPIT has a close link with the enterprises from different sector, type and size. It have played the intermediary function of chamber of commerce, and using multiple service means to serve Chinese enterprises for their international market expansion, participation in international competition and cooperations (see www.ccpit.org.net).

1.5 SIGNIFICANCE OF THE RESEARCH

An implicit objective of economic reform in China is to introduce markets and competition so that enterprises operate more efficiently. As an economy in transition from a socialist planned system to a market oriented system, China is increasingly exposed to world markets through its “open door” policy. Recent research has tended to focus on the impact of the economic reforms, the external environment of the enterprises under the reform regime (Hay *et al.*, 1994), the growth of China’s large state-owned enterprises, township-village enterprises, joint venture enterprises and other types of enterprise (World Bank, 1992; Weitzman and Xu, 1994; Chen, 1998; Nolan and Wang, 1999), and market characteristics and marketing behaviour (Liu, 1991). To date, hardly any attention has been paid to the adoption of the marketing concept in Chinese enterprises, except as part of other broader studies (Liu, 1991; Deng and Dart, 1999).

Therefore, this study aims to provide a clear indication of the key features of Chinese enterprises’ marketing behaviour. The intended contribution of the research is to enhance our knowledge and understanding of Chinese enterprises’ marketing behaviour under the transition economy.

1.5.1 THE UNDERSTANDING OF MARKETING BEHAVIOUR IN CHINESE INDUSTRIAL ENTERPRISES

Political and economic reforms from 1979 onwards have led to radical changes in the Chinese economic system. Enterprises have been given more autonomy in decision-making. The expectation, therefore, is that their behaviour has become more sensitive to the changing market environment.

However, it is commonly recognised that Chinese enterprises exhibit distinctive marketing behaviour because of the influence of factors that are specific to China. In particular, Chinese enterprises’ marketing activities are governed by

both internal and external factors, including enterprise characteristics, marketing competitiveness and government control, etc. These factors may perform different characteristics from western companies. Thus, the research attempts to provide general guidance to western companies on understanding Chinese enterprises' marketing behaviour.

1.5.2 CHINA'S ECONOMIC DEVELOPMENT AND INCREASED LINKS WITH THE WORLD

China's economic reform has brought the significant development of economic and social changes. China is achieving a prosperous economy characterised by increased participation in the international business community. There can be little doubt that China is playing an increasingly important role in the world economy and will have a significant impact on reshaping the global economic structure in the twenty-first century.

China presents an intriguing market situation, which is well worth investigating from a number of perspectives (Genzberger and Hinkelman *et al.*, 1994: 1). Western business people have been attracted by the huge Chinese market for centuries (Gilsdorf, 1997) and need to be aware of the country's current economic evolution if they are to benefit from the growing market opportunities. Therefore, it is increasingly important for researchers to carry out in-depth studies about the Chinese market and Chinese enterprises' marketing behaviour in order to enhance our understanding of the dramatic changes in Chinese business.

1.5.3 APPLICATIONS OF MARKETING THEORIES IN CHINESE ENTERPRISES

Marketing concepts and theories were originated and developed through Western business practices. There is thus a concern about the applicability of these concepts and theories in China. Taking the specific nature of the "socialist

market economy” into account, it is important to determine both the opportunities and obstacles to applying these concepts and theories at this specific stage of China’s economic development.

This study assumes that Chinese enterprises have a strong tendency to accept marketing concepts and marketing orientation. There is an opportunity to research in what way, and to what extent Chinese enterprises accept these concepts and adopt marketing orientation.

1.6 ORGANISATION OF THE THESIS

This thesis is divided into nine chapters. The present chapter (Chapter 1) presents an overview of the research focus, explains the purpose of the research, summarises the research hypotheses, and offers a brief discussion of the research methodology and the significance of the research.

Chapter 2 presents a literature review related to the evolution and application of the marketing concept and marketing behaviour in the Western business world, and considers the challenges for marketing presented by the changing business environment.

Chapter 3 provides a general account of the structures of Chinese enterprises and the development of marketing practices and theories in the pre-reform and post-reform stages in China. It examines market development and the evolution of marketing philosophy in China during the past 50 years and the key factors that influence decision-making on marketing in Chinese enterprises.

Chapter 4 presents the methodology employed in the research. It describes the research process through three interrelated phases: the establishment of the research method, field research activities, and data analysis. The hypothesis-testing procedures are then explained, and the three types of statistical method

that were employed (univariate, bivariate and multivariate statistics) are explained.

Chapter 5 presents a summary of the general responses to the questionnaire, and considers the association between these responses and the key variables: marketing activities, the marketing department, competitiveness, government control, enterprise's ownership and marketing orientation. It also relates the frequency of responses to the questions in the questionnaire to the seven initial research hypotheses.

Chapter 6 presents the results of Pearson's correlation analysis. Then, factor analysis is used to reduce the research variables and to analyse the internal structure of 78 variables in order to identify the underlying constructs of the research.

Chapter 7 presents the application of cluster analysis to identify similar groups within the data set. Profiles of each cluster are further discussed to reveal the characteristics of individual clusters. Then the focus is on hypotheses testing. The *Chi-square* test is used to determine whether responses differed significantly in relation to the identified variables: the marketing department, marketing activities, competitiveness, government control, enterprise's ownership and marketing orientation.

Chapter 8 provides a detailed discussion of all the research hypotheses. The total of seven hypotheses is identified to involve five aspects, which relate to marketing behaviour. H1 and H2 are connected with the marketing department and its competitiveness. H3 and H4 are linked to government control. H5 examines the issue of enterprise ownership. The marketing concept and marketing orientation are examined by H4 and H6. Finally H7 deals with the inevitability of adapting the western marketing concept. A following discussion is focused on these five aspects.

Finally, Chapter 9 summarises the key findings of the research and their implications. It also discusses the limitations of the research and offers suggestions for further research to carry forward the investigation of Chinese firms' marketing behaviour.

2 RESEARCH BACKGROUND: MARKETING

- 2.1 *Introduction*
- 2.2 *Overview of the Marketing Concept*
- 2.3 *The Changing Business Environment Challenges*
- 2.4 *Review of Marketing Orientation*
- 2.5 *Summary*

2.1 INTRODUCTION

This chapter sets out the research background by examining the development of the marketing concept and marketing orientation in Western society. It begins with a review of the evolution of the marketing concept, then considers the literature on the changing business environment and its impact on current marketing practices and the development of marketing theories, and then offers an overview of the literature on market orientation. The purpose of this research is to investigate a number of issues related to the adoption of the marketing concept, the extent of marketing orientation of the Chinese enterprises in the context of the Chinese transition economic environment. Thus, the chapter seeks to provide a foundation for the further discussion, in subsequent chapters, of the applications and implementation of marketing concepts in Chinese enterprises, and the attitude of firms towards marketing orientation.

2.2 OVERVIEW OF THE MARKETING CONCEPT

Marketing theory has been widely studied and practised over the years. Many contributions focus on concepts and definitions of marketing which cover a wide range of issues including the phenomena that are appropriately termed marketing activities, the nature and scope of the marketing system; and how the marketing process can be distinguished from other social processes (Hunt, 1976: 19). The Henley Management College collected approximately 100 explicit marketing definitions from textbooks, journals and institute/association publications, which spanned the twentieth century, in an attempt to answer the question “what is marketing?” (Gibson *et al.*, 1993; Baker, 1999: 14). Gibson *et*

al. (1993) provided both a qualitative and quantitative analysis of how scholars have defined marketing over the years. To evaluate a series of marketing functions, it is essential to review the development of marketing concepts and definitions in an international setting.

2.2.1 TRADITIONAL MARKETING THEORY

There is a remarkably divergent understanding of the nature of marketing. Marketing has been described as a simple trading activity, as a single business activity, as a group of related business activities, as a coordinative and integrative function in policy making, as an economic process, and as the creation of time, place and possession utilities (Marketing Staff of the Ohio State University, 1965: 43), and as personal selling and advertising (Lamb *et al.*, 2000: 6). Each of these concepts was developed in a certain situation and could be seen as appropriate for that situation. They are all part of marketing, but marketing is much more than these. “In reality, marketing encompasses many more activities than most people realise” (Dibb *et al.*, 2001: 5). Therefore it is necessary to conceive marketing in a sufficiently comprehensive manner to facilitate an understanding of the full scope of marketing activities.

The search for a generally acceptable definition of marketing can be traced back to the early 1900s. During the first 50 years of the century, marketing was associated with the study of commodities, institutions and functions (Weld, 1920). In 1960 the American Marketing Association (AMA) formulated a definition of marketing as “the performance of business activities that direct the flow of goods and services from producer to consumer or user” (AMA, 1960). This definition has been criticised for being much too restrictive. For example, the 1965 position paper of the marketing staff of the Ohio State University challenged the AMA definition, suggesting that marketing is “the process in a society by which the demand structure for economic goods and services is anticipated and enlarged and satisfied through the conception, promotion,

exchange, and physical distribution of goods and services” (Marketing Staff of the Ohio State University, 1965: 43-44). This definition is unique in that it explicitly defines the processes involved in the marketing discipline. Most importantly, it defines marketing as a social process, not just a set of business activities.

Kotler and Levy (1969) suggested that the concept of marketing be broadened to include non-business organisations, although they did not specifically propose a new definition. They pointed out that non-business organisations, including government departments, churches, police, and public schools, etc., also sell their products or services to their customers, using the normal tools of the marketing mix. Therefore, these organisations perform marketing, or at least marketing-like activities, and “the choice facing those who manager non-business organisations is not whether to market or not to market, for no organisation can avoid marketing.” The authors further noted that “the choice is whether to do it well or poorly, and on this necessity the case for organisational marketing is basically found.” (Kotler and Levy, 1969). Kotler and Levy were the first authors to point out that non-profit organisations need to use marketing concepts to achieve their goals.

However, David Luck (1969) contended that Kotler and Levy were wrong and that marketing should be limited to business processes that result in a market transition. Although Luck did not believe that non-business activities involved marketing, he did believe that marketing specialists could provide their services to non-marketing causes and help non-business organisations achieve their goals. In response to Luck, Kotler and Levy (1969: 57) suggested that “the crux of marketing lies in a general idea of exchange rather than the narrow thesis of market transactions”. They were also concerned that a narrow definition of marketing would prevent marketing from being applied in growing sectors of the society where its practice could have the greatest impact. Luck (1986) further assessed how his position was interpreted and pointed out that in most non-business activities there is no actual exchange between the parties

interested, so, by this criterion, marketing does not take place. He also explained that he did not intend to say that everything done by a non-business organisation could be seen as marketing.

Other commentators began to espouse the dual thesis: marketing should be broadened to include non-business organisations, and marketing's societal dimensions deserve scrutiny. Ferber (1970) prophesied that marketing would diversify into the social and public policy fields. Lavidge (1970) echoed this prophecy by admonishing marketers to cease evaluating new products solely on the basis of whether they could be sold, and he suggested evaluations of new products from a societal perspective.

Although the advocates of extending the notion of marketing appear to have won the semantic battle, their efforts may not have been victimless. Carman (1974: 14) noted that "the definition of marketing plays a significant role in directing the research efforts of marketers", and he suggested that many processes, e.g. political processes, do not involve an exchange of values and therefore marketing should not take such processes under its disciplinary wings. Bartels (1974: 76) also explored the so-called identity crises in marketing and indicated numerous potential disadvantages to broaden the concept. These included: (1) turning the attention of marketing researchers away from important problems in the area of physical distribution; (2) emphasising methodology rather than substance as the content of marketing knowledge; (3) an increasingly esoteric and abstract marketing literature. Bartels concluded, "if marketing was to be regarded so broad as to include both economic and non-economic fields of application, perhaps marketing as originally conceived would ultimately reappear under another name." Similarly, Luck (1976) decried the "semantic jungle" which appeared to be growing in marketing and was impeding the efforts of marketers to think clearly about their discipline. He challenged the AMA to create a special commission to clear up the definitional problems in marketing. Finally, Robert Eggert (1974), President of the AMA, stated that the development of a consistent standard definition of marketing was a primary goal

of the association. However, the broadened definition of marketing already prevailed at this point.

Clearly, it is no longer adequate to define marketing in terms of activities involved in buying, selling, and transporting goods and services, and marketers can, and must, be of service to a broader scope of the society. Nichols (1974: 142) surveyed marketing educators and reported that 95% of respondents believed that the scope of marketing should be broadened to include non-business organisations. Similarly, 93% agreed that marketing went beyond just economic goods and services, and 83% favoured including in the domain of marketing many activities whose ultimate result is not a market transaction.

The movement to expand the concept of marketing had become irreversible when the *Journal of Marketing* devoted an entire issue to marketing's changing social and environmental role. Kotler and Zaltman (1971: 5) developed the term "social marketing" to refer to "the design, implementation, and control of programs calculated to influence the acceptability of social ideas and involving considerations of product planning, pricing, communication, distribution, and marketing research". Kotler (1972: 49) re-evaluated his position and proposed "A Generic Concept of Marketing": "marketing is specifically concerned with how transactions are created, stimulated, facilitated, and valued".

Many researchers endeavoured to distinguish between the narrow and broader aspects of marketing functions by using the terms "micromarketing" and "macromarketing" and defining the respective functions of these two categories (Moyer, 1972; Bagozzi, 1977; Bartels and Jenkins, 1977; White and Emory, 1978; Shawver and Nickels, 1979). Macromarketing studies marketing within the context of the entire economic system with special emphasis on its aggregate performance to meet the society's objectives of a proper flow of goods and services. It refers to the study of marketing systems, the impact and consequences of those systems on society, and the impact and consequences of society on marketing systems. It concerns industries, sectors, regions and the

marketing system as a whole. It denotes the social context of micromarketing, its role in the national economy and its application to the marketing of non-economic goods (Nickels and Hill, 1978). Micromarketing is firm-oriented and refers to individual units, normally individual organisations and consumers.

The American Marketing Association updated their definition of the marketing concept after an exhaustive debate:

“Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.”

(AMA, 1985; Bennet, *et al.*, 1988: 54)

A similar definition has been suggested by Kotler (1991), who sees marketing as “a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others.”

The other leading international professional body, the UK Chartered Institute of Marketing (CIM), offers the following definition of marketing:

“Marketing is the management process of identifying, anticipating and satisfying customer requirements profitably.”

(Buttle, 1996: 2)

A rather broad definition is suggested by Dibb *et al.*:

“Marketing consists of individual and organisational activities that facilitate and expedite satisfying exchange relationships in a dynamic environment through the creation, distribution, promotion and pricing of goods, services and ideas.”

(Dibb *et al.*, 1994, 1997, 2001)

There are many definitions of marketing, since it is not a pure science (Dibb *et al.*, 2001: 7). These various definitions originated in the USA, UK and Europe (Baker, 1999: 14). However, Dibb *et al.* (2001: 7) point out certain core ingredients of these various definitions, thereby indicating the essential meaning of the term:

- Satisfying customers
- Identifying/maximising marketing opportunities
- Targeting the “right” customers
- Facilitating exchange relationships
- Staying ahead in dynamic environments
- Endeavouring to beat or pre-empt competitors
- Utilising resources/assets effectively
- Increasing market share
- Enhancing profitability

These basic priorities are useful to management in articulating the core meaning of marketing in an organisational setting.

The evolution of the traditional marketing concept has now extended through several decades. The constant desire and willingness to review and question the domain of marketing demonstrates the health of the marketing discipline (Morgan, 1996). The 1950s was the era of mass marketing (Buttle, 1996). During the 1960s, the marketing concept was proclaimed as the saviour of firms (Keith, 1960). In the 1970s, it was challenged to respond to societal issues (Kotler and Levy, 1969) and it focused on market segmentation (Buttle, 1996). In the 1980s, it caused discontent by over-segmenting markets and overstating the value of consumers’ expressed needs (Bennett, 1981, Houston, 1986).

2.2.2 THE IMPLEMENTATION OF THE MARKETING CONCEPT

Many researchers argue that the implementation of the marketing concept in an organisation requires the maintenance of a particular philosophical and managerial orientation (Levitt, 1960; Drucker, 1973; Bonoma, 1985; Masiello, 1988; Day, 1990; Morgan, 1996). However, many organisations maintain a host of conflicting philosophies, which causes problems for the implementation of such a concept (Payne, 1988).

Morgan (1996) identified several orientations to the philosophy of marketing: cost orientation is generally considered short-termist and is a disinvestment approach normally used as a strategy of retrenchment (Thompson, 1993); product orientation is concerned with capacity creation and volume production (King, 1985), and emphasises manufacturing and production issues although it does require the identification and development of markets (Baker, 1983); sales orientation involves aggressively seeking customers and persuading them to buy existing products and services (Houston, 1986); the marketing orientation focuses directly on customer orientation, integrated organisational effort and profit direction (Morgan, 1996); societal marketing orientation balances company profits, consumer satisfactions, and the public interest (Kotler, 1991).

The extent of implementation of the marketing concept depends on a series of factors such as organisational structure and the demands of internal operations (Morgan, 1996). Many researchers (Baligh, 1979; Barksdale, 1971; Hopkins and Bailey, 1971; Laczniak, 1976; Lazo, 1958; McNamara, 1972, Lawton, 1980; Narver, 1990; Walker, 1987; Piercy, 1992; Deng, 1994; Jaworski, 1993) have attempted to operationalise and measure the “degree of implementation of the marketing concept” across many different industries and firms of different sizes. They conclude that the marketing concept has been adopted for particular purposes and that marketing responsibilities have expanded to position marketing within an organisational function. However, Morgan (1996) highlighted the complex measurement problems involved in these assessments,

and pointed to the contingent nature and limited coverage of most of these studies.

The most significant criticism of the marketing concept has been associated with its implementation (Hayes and Abernathy, 1980; Kaldor, 1971; Houston, 1986; McGee and Spiro, 1988; Webster, 1988; Bernard, 1987; Doyle and Hooley, 1992; Hooley *et al.*, 1990; Piercy, 1985), Morgan (1996) concluded that “for the most part, these criticisms can be categorised into four main critical themes. First, historical evidence suggests that marketing has been portrayed as the most crucial management perspective within the organisations (Houston, 1986, Austen, 1983). Secondly, many examples of peer implementation abound (Doyle and Hooley, 1992 and Hooley *et al.*, 1990 *etc.*) which indicate a divorce between the rhetoric of the marketing concept and the reality of marketing practice. Thirdly, the marketing concept does not sufficiently recognise the responsibility of organisation to society (Kotler, 1991) and the consumer (Dixon and Diehn, 1992 and McGee and Spiro, 1988) within the organisation. Finally, an exaggerated emphasis on the marketing concept within organisations has been blamed for a decline in productivity, competitiveness and the ability to successfully innovate” (Bennett and Cooper, 1981, Hovell, 1977 and Kiel, 1984).

Through the debates, arguments and conclusions, marketing has achieved the position of being a legitimate scholarly discipline and is respected by academics and practitioners in management, economics, psychology, sociology and other social sciences (Sheth *et al.*, 1988: 183). However, the traditional marketing approach, which emphasises the management of key marketing mix elements within a functional context, has an inherently short-term transactional emphasis.

2.2.3 RELATIONSHIP MARKETING

Over the past 15 years, relationship marketing has become a topic of great interest to many organisations and academics. In the 1990s, there were indications of the changing nature of marketing. Buttle (1996) noted that this change was driven by several changes in the business environment: “more intense, often global, competition; more fragmentation of markets; a generally high level of product quality which is forcing companies to seek competitive advantage in other ways; more demanding customers; and rapidly changing customer buying patterns.” Marketing is no longer simply about developing, selling and delivering products, or services. It is becoming more concerned with the development and maintenance of mutually satisfying long-term relationships with both customers and suppliers. The establishment and maintenance of such relationships cannot easily be duplicated by competitors, and therefore it provides a unique and sustained competitive advantage. The new relationship marketing approach, while recognising that marketing mix elements must be addressed reflects the need to create an integrated, cross-functional means of marketing (Payne, 2000: 16). The current marketing focus is shifting from customer acquisition to customer retention. Gronroos (1991) claimed that relationship marketing is characteristically different from transactional marketing. It focuses on interactive marketing with the 4Ps in a supporting role, rather than routinely employing the marketing mix. Czepeil (1990: 13) also argued “a relationship possesses mutual recognition of some special status between exchange partners”. The differences between relationship marketing and transactional marketing are presented in Table 2-1.

Alternative definitions have been developed to describe this changing nature of marketing. According to Gronroos (1990), the aim of “marketing is to establish, maintain, and enhance relationships with customers, and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfilment of promises.” Morgan and Hunt (1994: 22) offer a broader definition of relationship marketing: “Relationship marketing

refers to all marketing activities directed toward establishing, developing and maintaining successful relational exchanges”. In contrast to traditional marketing definitions, which focus on transactions, those of Gronroos (1990) and Morgan and Hunt (1994) attempt to incorporate both the transactional and the relational qualities of marketing.

Traditionally, relationships between customers and suppliers have been characterised as confrontational and adversarial, as in the analysis of distribution channel management and industrial marketing, which focus on issues of power, conflict and control (O’Neal, 1989; Rosenbloom, 1991; Stern and El-Ansary, 1992). Only very recently has the concept of supply-chain management introduced a smoother view of the relationships between retailers and suppliers. In this sense, relationship marketing is all about “healthy relationships, which are characterised, by concern, trust, commitment and service” (Young and Wilkinson, 1989).

Table 2-1 The Differences between Transaction Marketing and Relationship Marketing

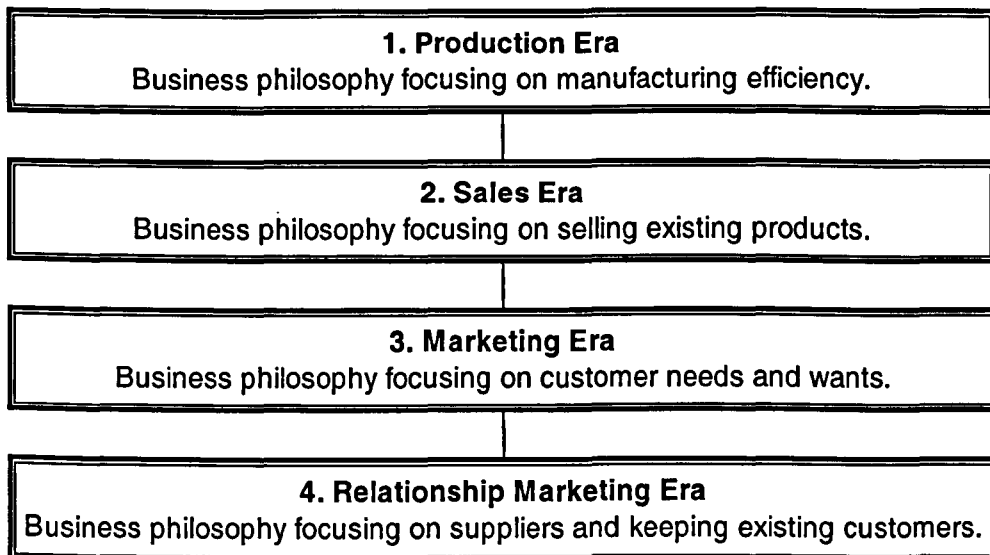
Strategy Continuum	Transaction Marketing	Relationship Marketing
	Short-term focus	Long-term focus
Time perspective	Short-term focus	Long-term focus
Dominating marketing function	Marketing mix	Interactive marketing (supported by marketing mix activities)
Price elasticity	Customers tend to be more sensitive to price	Customers tend to be less sensitive to price
Dominating quality dimension	Quality of output (technical quality dimension) is dominating	Quality of interactions (functional quality dimension) grows in importance and may become dominating
Measurement of customer satisfaction	Monitoring market share (indirect approach)	Managing the customer base (direct approach)
Customer information system	Ad hoc customer satisfaction surveys	Real-time customer feedback system
Interdependency between marketing, operations and personnel	Interface of no or limited strategic importance	Interface of substantial strategic importance
The role of internal marketing	Internal marketing of no or limited importance to success	Internal marketing of substantial strategic importance to success

Source: Gronroos, 1991: 329.

In general, the 1990s are regarded as the decade of relationship marketing (JAMS, 1995 and Buttle, 1996). With the advent of advanced information technology, the application of marketing will definitely be taken into to a new phase. To date, the marketing concept has been “broadened, deepened, extended, redefined, and repositioned” (Kotler and Levy, 1969; Kotler, 1972; Enis, 1973; Foxall, 1989; Gronroos, 1990; Morgan, 1996). The marketing concept has attracted an abundance of definitions.

2.2.4 THE EVOLUTION OF THE MARKETING CONCEPT

Most introductory marketing textbooks present the historical and philosophical development of marketing concept in terms of eras (Dickson, 2000: 6, Dibb *et al.*, 2001: 14). Figures 2-1 shows the most frequently used classification: the production era, the sales era, the marketing era, and the relationship marketing era.



Source: adapted from Dickson, 2000.

Figure 2-1 The Evolution of Marketing

The Production Era. The production era was from the second half of the nineteenth century to the early part of the twentieth century (Dibb *et al.*, 2001:14). Its philosophy focused on the internal capabilities of the companies rather than on the desires and needs of the marketplace (Lamb *et al.*, 2000: 7).

The Sales Era. The sales era was from the mid-1920s to the early 1950s (Dibb *et al.*, 2001:15). During the sales era, companies tried to sell what they produced as opposed to producing what they could sell (Dickson, 2000: 7). Therefore, the sales era was based on the idea that people will buy more goods and services if aggressive sales techniques are used, and high sales will result in high profits (Lamb *et al.*, 2000: 7). In the sales era, marketing continued to play a secondary role to other functional departments (Dickson, 2000: 7).

The Marketing Era. The marketing era was from the early 1950s to the late 1980s (Pride and Ferrell, 1997: 10; Dibb *et al.*, 2001:15). It was characterised by the importance placed on identifying and satisfying customer needs and wants prior to producing the product. During the marketing era, marketing moved to the forefront of business strategy (Dickson, 2000: 7).

The Relationship Era. The relationship marketing era began in the 1990s. Traditionally, the view of marketing of many organisations was transaction-based (Buttle, 1996: 1). Since the end of the 1980s, the marketing era has shifted its focus towards relationship marketing (Gronoos, 1994). The relationship marketing era is characterised by a broadening of the definition of customers to include suppliers, agents, distributors, recruiters, referral bodies and influences. Its emphasis is on developing long-term, mutually satisfying relationships with the organisation's customers and suppliers (Dibb *et al.*, 2001:15; Dickson, 2000: 8; Sheth and Sisodia, 1995).

2.3 THE CHANGING BUSINESS ENVIRONMENT

CHALLENGES MARKETING

The business environment is constantly changing, which challenges the marketing discipline and its evolution (Denison and McDonald, 1995).

Literature in this area is limited but provides a platform for future studies.

Several specific challenges to marketing practices can be identified:

Globalisation. Wider changes in the marketing environment are being driven by the spread of globalisation, where the focus has moved away from the question of whether being a worldwide community is considered a good or a bad thing, to what form globalisation should take, and what its economic rules and its political guidelines and constraints should be (Christopher and Baker, 2000: 284). The concept of nationally separate markets is no longer relevant, except where strong differences in consumer behaviour and cultural preferences exist. Buyers and suppliers are becoming more global, and as a result, competition is intensified. Globalisation is now the most significant challenge to marketing. Marketing strategy has to shift from domestic marketing operations to international competitiveness in larger, more disparate markets (Garda, 1988; Lazer, 1993).

Increasing Customer Expertise, Sophistication and Power. The development of information and communications technology has brought a broader knowledge of products and services to customers. On the other hand, it is evident in many industries that the purchases of larger firms account for a significant percentage of procurement in the whole industry. In general, customers' expectation of the quality, reliability and durability of products and services is growing constantly (Denison and McDonald, 1995). At the same time, customer buying behaviour is rapidly changing, and customer preferences in products and services are varied. Many studies have focused on the value of the customer base on the evidence that it costs more to win a new customer than to keep an existing one. This is because current customers are familiar with

products and brands, but persuading a customer to leave a competitor and buy a new product involves either financial incentives or expensive communication programs (Peppers and Rogers, 1993). Marketers focus on the relationships between organisations and between the organisation and the customer as the keys to a successful marketing strategy.

Market Maturity. In many sectors, the market has reached the maturity stage. Competition has intensified. Companies are forced to decrease their margins. There is a great need to improve operational efficiency and create value for money (Denison and McDonald, 1995).

These changes challenge industry to restructure and re-evaluate the way they undertake marketing. Garda (1988) suggests that marketing is becoming not only more complex as a function, but more of an analytical science that uses logic, systematic data analysis and sophisticated market research techniques. It is far more than the art form that marketing used to be in the 1950s and 1960s, when it was practised by the creative, the intuitive and the inspirational (Garda, 1988). Today's marketing has to respond to these new challenges (Garda, 1988; Hansen *et al.*, 1990; Lynch *et al.*, 1990; McKenna, 1991; Liu and Wensley, 1991; Doyle, 1992; Whittington and Whipp, 1992; Lazer, 1993; Denison and McDonald, 1995). Under these conditions, the emphasis rests as much on customer retention as on attracting new customers. It also presents a new challenge to marketing, namely, how to create and stimulate new-to-the-marketplace demand, rather than being satisfied simply by competing purely on a market-share basis (Denison and McDonald, 1995).

Process Thinking. Denison and McDonald (1995) suggest that these changes have forced marketers to shift from a single-product approach to systems thinking. Rather than selling ready-made, tangible products, marketers sell by reputation and in terms of their capability to manufacture according to exact client specifications and on a need basis. This is prompted by definitions of marketing as a process whereby actions are defined (planned) and then performed

(executed) in a way which leads to satisfactory exchanges in the marketplace (Ferrell and Lucas, 1987; Meldrum, 1996: 29).

The Information Technology Boom. Armstrong and Kotler (2000: 24) point out that “the explosive growth in computer, telecommunications and information technology has had a major impact on the way organisations bring value to their customers”. The technology boom has created exciting new ways to learn about and track customers, create products and services tailored to meet customer needs, distribute products more efficiently and effectively, and communicate with customers in large groups or on a one-to-one basis. The development of the information technology has challenged the marketing strategies.

2.4 REVIEW OF MARKETING ORIENTATION

Market orientation is the very heart of modern marketing management and strategy (Narver and Slater, 1990: 20). The adoption of marketing means that the enterprise develops its market orientation. This research seeks to investigate a number of issues related to the adoption of the marketing concept and the extent of marketing orientation in Chinese enterprises. For the purpose of this study, it is important briefly to define marketing orientation and consider how it has evolved to where it is today.

Shapiro (1988) argued that terms such as “market-focused”, “market-led”, “market-oriented” and “marketing-oriented” are so similar that they cannot easily be distinguished. One view is that “market oriented” is to be preferred to “marketing-oriented” as it highlights organisation-wide application (Kohli and Jaworski, 1990; Narver and Slater, 1990; Shapiro, 1988) whereas a marketing orientation is seen to be specific to the activities of the marketing department or division.

However, market orientation itself has been conceptualised in a number of ways. One theme focuses on the adaptive ability of the firm to organise in the marketplace (Kohli *et al.*, 1993; Kohli and Jaworski, 1990) and describes three organisational attributes that reflect the degree of marketing orientation: intelligence generation, intelligence dissemination, and responsiveness. Shapiro (1988) suggests that the marketing concept can be defined in three ways: as a philosophy, as a concept and as currently implemented. Much of the confusion over the years in defining marketing and in the understanding of the marketing concept results from a failure to make these three distinctions between marketing as a culture, as a strategy, and as a tactic.

Ruekert (1992: 228) integrated both themes by defining the marketing orientation as “the degree to which the organisation obtains and uses information from customers; develops a strategy which will meet customer needs; and implements that strategy by being responsive to customer needs and wants.” Therefore, strategic planning and implementation issues which focus explicitly on customer needs and wants are indicators of marketing orientation (Ruekert, 1992). Another indicator is the enterprise’s emphasis on marketing research. For example, in transition economies, an increasing reliance on market research might reflect the enterprise’s recognition of change in economic systems and the implications of opening a competitive marketplace (Peggy *et al.*, 1995)

Another view of marketing orientation is more action-oriented. Based on Kotler’s (1977) definition, Narver and Slater (1990) propose three behavioural components: customer orientation, competitor orientation, and interfunctional co-ordination. Customer orientation is the sufficient understanding of target buyers so as to be able to create superior value for them continuously. Competitor orientation is understood in terms of the short-term strengths and weaknesses and the long-term capabilities of both current and potential competitors. Interfunctional co-ordination is the co-ordinated utilisation of

company resources for creating superior value for target customers (Kohli and Jaworski, 1990; Narver and Slater, 1990).

2.4.1 MARKET ORIENTATION AS A PHILOSOPHY

There is a broad agreement that market orientation as a philosophy consists of three core aspects (Kohli and Jaworski, 1990; Kotler, 1991; McGee and Spiro, 1988; Runyon, 1980). These are:

1. **Customer Orientation.** This essentially requires an understanding of the psychological and social factors which determine the customer's action. Such an understanding enables the marketer to ask the appropriate market research questions. These questions identify the core needs, which in turn will give clear direction to basic research. This is Levitt's (1960) essential argument against "marketing myopia" -- the necessity for firms to identify the basic customer needs that they serve and define their business accordingly.
2. **The Integration of Effort.** This enables the firm to provide the value to meet customer needs. It involves the need to co-ordinate effort in terms of the elements of the marketing mix for each product. Moreover, because market orientation is an organisation-wide prescription, it is necessary that the whole firm is organised and co-ordinated in the service of the customer.
3. **Organisational Objectives** (or, in the case of business firms, profitability). In adopting the marketing concept the organisation seeks to serve customer needs in order to meet its requirements for achieving objectives/profit. This is essential for long-term survival (Felton, 1959; McGee and Spiro, 1988; Narver and Slater, 1990; Webster, 1988). Many managers, especially in Western firms, must balance this against the demands they face for short-term performance. However, in certain circumstances an undifferentiated

offering can represent and exemplary use of the marketing concept (Houston, 1986).

2.4.2 MARKET ORIENTATION AS A CONSTRUCT AND ITS OPERATIONALISATION

Kohli and Jaworski (1990) provide an operational definition for market orientation as a construct. They compare the three core elements of market orientation as a philosophy with to the perceptions of practising managers. Their work enables them to offer the following definition:

“Market orientation is the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation-wide responsiveness to it”.

(Kohli and Jaworski, 1990)

Market intelligence is seen to be based not just on “verbalised customers’ opinions” but also on “a broader concept” which includes consideration of: exogenous market factors (e.g. competitors, regulation) that affect customers. Gronroos (1991) recognises the need for a firm to have a strong information system, especially in the case of those “in a relationship marketing situation”. Recent work by Jaworski and Kohli (1993), following the approach suggested by Churchill (1979), utilise the market intelligence-related activities of their definition to develop a measuring instrument for market orientation. The alpha coefficients (Cronbach, 1951) reported for each subdivision of this instrument are greater than 0.70, and are therefore acceptable for theory development (Nunnally, 1978). At least three other scales for measuring market orientation, based on different emphases in their conceptualisation of market orientation as a construct, have been developed (Deshpande *et al.*, 1993; Narver and Slater, 1990; Ruekert, 1992).

2.4.3 MARKET ORIENTATION AS IMPLEMENTATION

According to Pitt *et al.* (1996: 8), “the level of market orientation of a firm depends on the degree of implementation of the marketing concept”. One major criticism of the marketing concept (Hayes and Abernathy, 1980; Kaldor, 1971) concerns the problem of implementation (Houston, 1986; McGee and Spiro, 1988; Webster, 1988). Perhaps this is because there is no complete agreement as to what constitutes market orientation. What is often implemented in the name of a market orientation may therefore differ considerably. It is thus not surprising that Kotler (1991: 22) asks:

“But how many companies have actually implemented the marketing concept? The answer is too few. Only a handful of companies really stand out as master practitioners of the marketing concept.”

When the product offering cannot or will not be changed, a market orientation is difficult to implement. In such cases as religion, art and ideology, where profit is not a concern, some of the tools of marketing can be used, but the fixed nature of the product or offering limits maneuverability. Hirschman (1983) has investigated artists and ideologists and suggests that “a study of the exchange process and the value transfers involved could help build a modified marketing concept”.

2.4.4 THE MARKETING ORIENTATION – BUSINESS PERFORMANCE LINK

Strategic business units in some Western companies have been seen to exhibit a direct link between their levels of market orientation and performance (Jaworski and Kohli, 1993; Narver and Slater, 1990; Narver *et al.* 1990; Ruekert, 1992). However, this apparent linkage is questioned by both academics and practitioners (see, e.g., Levitt, 1960; Houston, 1986; Kohli and Jaworski, 1990;

Kotler, 1991; McGee and Spiro, 1988; Webster, 1988; Narver and Slater, 1990; Deng and Dart, 1994). Since 1990, a considerable number of studies have examined the link between market orientation and company performance (see Table 2-2).

Table 2-2 Previous Studies on the Link between Market Orientation and Performance

Study	Sample	Findings
Narver and Slater (1990)	140 SBU's in one corporation	Positive association
Deshpande <i>et al.</i> (1993)	50 Japanese firms-cross industry	Positive association
Jaworski and Kohli (1993)	222 business units from sample of US corporations across industries. A second sample of 230 US managers	Positive association for subjective measure but not objective measure.
Slater and Narver (1993)	140 SBU's in one forest products corporation	Positive association
Deng and Dart (1994)	248 firms across industries	Positive association
Slater and Narver (1994)	81 SBU's in one corporation and 36 in another	Positive association
Greenley (1995)	240 UK companies across industries	Association may be positive or negative depending on the competitive environment
Pelham and Wilson (1996)	68 US firms across industries	Positive association
Pitt <i>et al.</i> (1996)	1,000 firms across industries in UK and sample of Maltese firms across industries	Positive association
Slater and Narver (1996)	228 manufacturing firms across industries	Positive association with sales growth but not profit
Balakrishnan (1996)	139 firms in single industry study: machine tools	Positive association
Avlonitis and Gounaris (1997)	444 Greek firms across industries	Positive association
Deshpande and Farley (1998)	82 managers in European and US companies	Positive association
Appiah-Adu (1998)	74 Ghanaian firms across industries	Association is moderated by the environment
Ruekert (1992)	Two SBUs in one large corporation	Positive association
Diamantopoulos and Hart (1993)	87 UK firms – cross industry	Positive association

Source: Dawes, 1999. pp. 65-67

Many researchers (e. g. Day and Wensley, 1988; Hambrick, 1983; McKee *et al.*, 1989; Kohli and Jaworski, 1993; Slater and Narver, 1994) have also tested the relationship between environmental factors and marketing orientation. These researchers generally found that there is a contingent relationship between these

two variables, with strategic orientation and ensuing performance moderated by conditions in the competitive environment. In investigating the market orientation-business performance link, Kohli and Jaworski (1993) reported results from a test for the moderating effects of market turbulence, technological turbulence and competitive intensity on the market orientation-performance relationship and found no evidence of the environment affecting the strength of the relationship. Based on Kohli and Jaworski's (1993) research, Slater and Narver (1994) investigated how the competitive environment affects the strength of the market orientation-performance relationship. Their findings are also consistent with Kohli and Jaworski's (1993) finding that there is "little support for the proposition that the competitive environment has an effect on the strength and nature of the marketing-orientation-performance relationship". These findings suggest that, from a managerial point of view, a market orientation is a particular form of business culture. Indeed, a strongly market-oriented business should find more opportunities in any environment than its less market-oriented competitors (Kizner, 1979), though increasing and maintaining a high level of market orientation is a complex process that requires a considerable expenditure of money and time.

A market-oriented business should be prepared to achieve and sustain competitive advantage in any environment situation (Slater and Narver, 1994: 53). Pitt *et al.* (1996: 9) point out that "since the establishing of a clear link between marketing orientation and performance, it is expected that this relationship should also extend to different countries and cultures". Therefore, the development of market orientation has been the subject of analysis both in Western societies and east European transitional economies (e.g. Akimova, 1997, 2000; Hooley *et al.*, 1990; Lusch and Laczniak, 1987; Sharp, 1991). There has also been some limited discussion of market orientation in Chinese enterprises (e.g. Deng and Dart, 1999).

2.5 SUMMARY

There has been a continuing debate over concepts and definitions of marketing. From the early 1900s, marketing has gone through some important stages. The 1950s was the era of mass marketing (Morgan, 1996). In the 1960s, marketing was proclaimed as the saviour of firms (Keith, 1960. in the 1970s, marketing was challenged to respond to social issues (Kotler and Levy, 1969). During the 1980s, marketing was focused on market segmentation (Buttle, 1996). In the 1990s, relationship marketing (in contrast to transaction marketing) become the dominant theme almost everywhere (Baker, 1999: 15).

During the first 50 years of the last century, marketing was associated with the study of commodities, institutions and functions (Weld, 1920). This focus was represented by the American Marketing Association's definition in 1960 (see Committee on Terms, 1960: 15). But this view came under attack from various sectors as being too restrictive, and subsequent researchers and marketing theorists sought to define marketing in a social process context, rather than as just a set of business activities. The major impact on the marketing concept at this stage was made by Kotler and Levy (1969), who suggested that the marketing concept be broadened to include non-business organisations, and who first pointed out that non-profit organisations need to use marketing concepts to achieve their goals. Kotler and Levy (1969) did not provide a new definition of marketing, but their arguments on the need to broaden the marketing concept were criticised by many observers and researchers. Some decried that the extension of the marketing definition had become a semantic jungle and had impeded the efforts of marketers to think clearly about their discipline. Others warned of numerous potential disadvantages of broadening the marketing concept, which included a shift of focus on important research issues and a lack of a clearly defined domain for the marketing literature. This movement towards the expansion of the marketing concept in a social-process context came to an end when the concept of social marketing was developed by Kotler and Zaltman (1971). However, the effort to understand marketing in a new environment has

not ceased. Researchers have endeavoured to distinguish different aspects of the marketing concepts, and have categorised marketing activities in different ways, e.g, the contrast between macromarketing (studies of marketing in the context of the entire economic system) and micromarketing (studies of marketing in individual units) (Moyer, 1972).

The development of marketing concepts and definitions is related to the constantly changing business environment. The literature in this area is limited, but it highlights the importance of understanding the marketing concept against the background of globalisation (Garda; 1988, Lazer, 1993), increasing customer expertise, sophistication and power (Denison and MacDonald, 1995), and process thinking (Denison and MacDonald, 1995). In the 1980s, marketing caused discontent by over-segmenting markets and overstating the value of consumers' expressed needs (Bennett 1981, Houston, 1986). However, these concepts and definitions reflect a traditional, transaction-orientated view of marketing. Transaction marketing emphasises the ability to attract customers and does not pay enough attention to customer retention (Buttle, 1996; Jackson, 1985; Webster, 1992; Zeithaml and Bitner, 1996; Lindgreen *et al.*, 2000). Therefore, it is too simplified a marketing framework for today's businesses as they face a plethora of new competitive challenges (Christopher *et al.*, 1991; Gordon, 1998).

Over the last decade, the market has generally become mature and there is little possibility for product differentiation (Evans and Laskin, 1994; McKenna, 1991). Hence, customer retention is becoming more important and relationship marketing is now the key priority. The new concept of marketing incorporates both the transactional and relational qualities of marketing and also takes into account financial implications. It is far more expensive to win a new customer than to retain an existing customer (Rosenberg and Czepiel, 1984), and the longer the relationship is maintained, the more profitable it is for the firm (Reichheld and Sasser, 1990). Relationship marketing is also referred to as

micromarketing, database marketing, one-to-one marketing, loyalty marketing, wrap-around marketing, and interactive marketing (Buttle, 1996).

The most significant criticism of the marketing concept is associated with its implementation (Hayes and Abernathy, 1980; Kaldor, 1971; Houston, 1986; McGee and Spiro, 1988; Webster, 1988). There are also different dimensions of market orientation. It is seen as a philosophy, which consists of three core aspects: customer orientation, the integration of effort, and organisational objectives (Kohli and Jaworski, 1990; Kotler, 1991). It is seen as a construct, which compares the three core elements. Market orientation as a philosophy reflects the perceptions of practising managers. Turning to implementation, the level of market orientation of a firm depends on the degree of implementation of the marketing concept. Market orientation is also seen to be linked to business performance (Jaworski and Kohli, 1993; Narver and Slater, 1994).

In summary, marketing is a large and complex subject that covers a multitude of economic and social activities. Furthermore, the notion of an exchange relationship is central to understanding the foundation of the marketing concept.

Marketing is a philosophy. It provides a set of principles for the management of the business such as customer orientation, integrated effort and profit direction. These principles require organisational operations to be performed in the context of customer needs in order to achieve the organisation's goal successfully.

Marketing is a management process that consists of a number of cross-functional activities to satisfy exchange relationships. The marketing activities include the creation, distribution, promotion and pricing of goods, services and ideas. These activities are performed by producers or intermediaries. Individuals and organisations seek ways to implement the marketing philosophy in their own settings.

Marketing concerns the establishment of exchange relationships and the maintenance of long-term relationships in a dynamic environment. These exchange relationships are of three types: (1) organisation/intermediary relationships, (2) organisation/customer relationships, and (3) organisation/employee relationships. Most importantly, the dynamics of these relationships are constantly evolving. Thus, the marketing activities of the organisation or the individual must be relationship-based. Marketing must also seek to retain customers and to develop enduring, long-term, mutually beneficial relationships with customers.

The vast majority of studies relating to the marketing concept and marketing orientation have arisen within Western business settings. There is also a growing literature on the adoption of the marketing concept and marketing orientation in the Chinese setting (e.g. Liu, 1991; Whybark, 1994; Kinnell *et al.*, 1994; Deng and Dart, 1999). The present research seeks to examine the attitude towards marketing orientation in Chinese enterprises, the influence of government control and enterprise ownership on the extent of the enterprise's marketing orientation. It also explores the interactions in enterprises' marketing department, competitiveness and marketing activities.

3 RESEARCH BACKGROUND: MARKETING IN CHINA

- 3.1** *Introduction*
- 3.2** *The Pre-reform Planning and Supply System*
- 3.3** *Economic Reform*
- 3.4** *The Evolution of Marketing in China*
- 3.5** *Key Factors that Influence Chinese Enterprises' Marketing Behaviour*
- 3.6** *Summary*

3.1 INTRODUCTION

This chapter introduces the background of China's economic system and marketing applications in chronological order. It discusses the characteristics of two main stages of the evolution of China's economic system: the pre-reform planning system, which was based on the Soviet Union's command system in the 1950s, and the reformed economic system since the late 1970s. To facilitate an understanding of the context, the chapter also discusses the early economic reform from 1958 to the early 1970s. It further reviews the evolution of marketing in China, with a focus of how the economic reform influences marketing application. In general, marketing has gone through three phases in relation to economic reform: the introduction and cognition phase (1978-1983); the propagation and developing phase (1984-1992); the spread and initial utilisation phase (1992 to the present). Chinese enterprises' marketing behaviour has been influenced by various factors, especially government control, market competition, and the environment, which are studied in this chapter.

3.2 THE PRE-REFORM PLANNING AND SUPPLY SYSTEM

China's pre-reform economic system was set up in the 1950s and adopted the Soviet command system, under which resources were allocated directly by a central authority (Moyer, 1966: 3). This system was a centralized planning system. The main characteristics were:

- The state assigned mandatory plan targets for important economic activities and relied on administrative measures to ensure the implementation of plans.
- Administrative departments at all levels held the power to make planning policies. Moreover, targets were assigned to departments and localities, and management was exercised at each level. Enterprises lacked the necessary power to make planning policies.
- Planning gave priority to product targets. The fulfillment of quotas for goods became the main standard for evaluating the results of work in departments, regions and enterprises.

In a short period of time, China established an independent and comprehensive industrial system and national economic system (Gao, Shangyuan, 1987: 132).

3.2.1 CHINA'S PRE-REFORM PLANNING SYSTEM

Before economic reform, some products were considered more important than others. Central government planning committees decided which products had priority over others. All of these were carried out by China's planning system (Wang, 1989: 22-26)

3.2.1.1 TWO PLANNING SYSTEMS

Planning was at the core of the socialist system of economic management, controlling and influencing other aspects of that system. Chinese economist Chen Jiyuan (1987: 148) concluded that the planning system had two parts: a macro-planning system and micro-planning system. The macro-planning system was within the sphere of society and included state plans, sector plans and regional plans. The micro-planning system was primarily associated with a basic economic unit – which was within an enterprise's production, supply and

marketing plans. In the past, Chinese state-owned enterprises were all subjected to mandatory plans. Collective enterprises were partly subjected to mandatory plans. Under this planning system, an enterprise was not a commodity producer; it became an appendage of the state's administrative structure.

3.2.1.2 MAIN CHARACTERISTICS

The main characteristic of this form of planning was that it was compulsory. The mandatory planning assignments sent down by the state had the effect of law for the enterprise and had to be implemented. Under central planning, the enterprise took all its orders from the planned assignments sent down by the state in determining what products and how many products to produce. The funds necessary for the enterprise's economic operation were allocated entirely by the state, and all the enterprise's income was turned over to the state. All products produced by the enterprise were subject to monopoly purchasing and marketing by the state. The enterprise's equipment and raw materials needed for production were also provided by the state.

Under this system, each enterprise established a plan department to carry out the key tasks such as determining the quantities of materials that were needed to meet the state production plan, attending state planning conference, etc. During the socialist economy's development, this form of planning was used to concentrate human, material and financial resources in key sectors selected by the state in order to solve the most pressing economic problems.

3.2.2. THE PRE-REFORM MATERIAL SUPPLY SYSTEM

Before reform, all goods were divided into two classifications: production goods and consumer goods. The supply system was also divided in the same way. The *Planning Commission* and *Material Supply Ministry* managed the supply of production goods. "Around 700 kinds of production goods were allocated by the plan in 1978" (The Economist, 1992). The *Commerce Ministry* dealt with

agricultural raw materials and consumer goods. Production goods and consumer goods fell into three categories according to the division of responsibility for them (Chen, 1987: 38-52).

3.2.2.1 TWO SUPPLY SYSTEMS

The administrations and organisations participating in goods supply are shown in Figure 3-1. Generally, the *State Material Supply Ministry* administered the distribution of production goods. The Material Supply Agencies were established in relation to the different tiers of the state administrative system. At each level of government, there was a *Material Supply Bureau* under the *State Material Supply Ministry*. The Ministry had a number of specialised national corporations called Material Enterprises, which dealt with nationally allocated goods. These included metals, machinery and electrical equipment, industrial chemicals, timber, and building materials. These corporations in turn set up Purchasing and Supply Agencies (called First-Level Stations) in each major administrative area to organise supplies (Tidrick, 1987: 175-180). They operated several types of warehouses between producers and buyers, and handled the responsibility for channeling production goods through these warehouses. Industrial ministries had their own supply units to organise the products and materials supply for the enterprises under their jurisdiction. *The Material Supply Bureaux* at the provincial, municipal and autonomous region levels also set up a number of specialised companies and supply agencies.

The *State Commerce Ministry* administered the distribution of consumer goods within a state wholesale network, which consisted of three levels. In the major cities where commodities originated, *First-Level Purchasing and Supply Stations* were set up directly under the various specialised national corporations of the *Commerce Ministry*. In other major or medium-size cities, there were *Second-Level Purchasing and Supply Stations*. These stations were subordinate to the specialised companies under the *Commerce Bureaux* at the provincial,

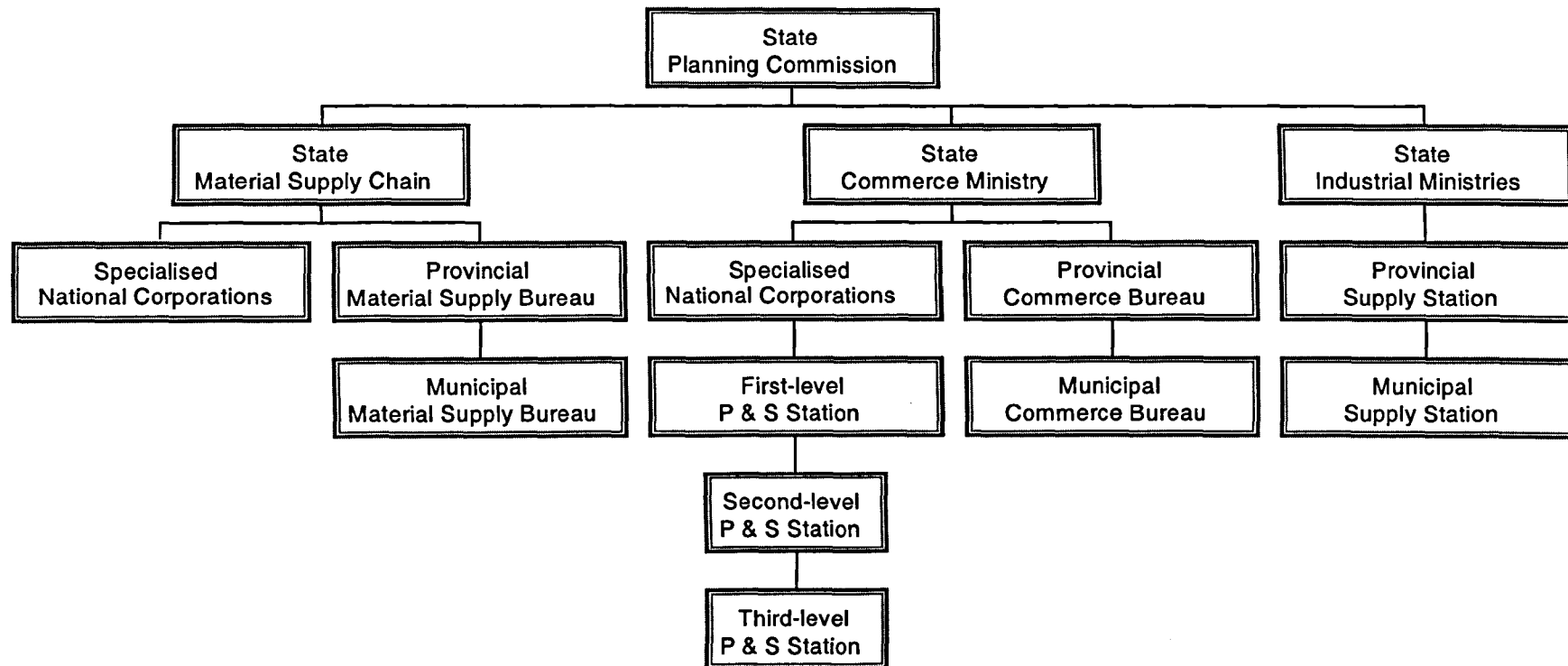


Figure 3-1 China Planning and Material Supply System

municipal, and autonomous region levels. At the county level, there were *Third-Level Wholesale Outlets*. These specialised companies exercised administrative responsibilities. Within the state trading system, the distribution of commodities started with the *First-Level Purchasing and Supplies Stations*, then moved to the second level and subsequently the third level before reaching the retailers (see Figure 3-1).

3.2.2.2 THREE CATEGORIES OF GOODS

According to the “China Material Supply Management Regulation” (China Material Supply Ministry, 1964) all goods fell into three categories, as shown in Table 3-1. The most important goods (for the national economy and the people’s livelihood) such as steel, timber and petroleum, etc., were in the first category and were known as nationally allocated goods¹. They were allocated by the *State Planning Commission* and distributed and stocked by the *State Material Supply Ministry* and the *Commerce Ministry*. The second category consisted of ministerially controlled goods. They were important specialised goods under the jurisdiction of relevant industrial ministries. The third category of goods were arranged by the agencies at provincial, municipal and autonomous region levels, or were left with the enterprises. These were called locally controlled goods.

Table 3-1 Three Categories of Goods

Nationally Allocated Goods	Ministerially Controlled Goods	Locally Controlled Goods
State Planning Commission Material Supply Ministry Commerce Ministry	Relevant Industrial Ministries	Local Supply Bureau

¹ The goods in this category were reduced from 256 in 1978 to 19 in 1993 (Sun, 1994: 9).

3.2.2.3 ARRANGEMENTS FOR THE SUPPLY OF MATERIALS

Individual enterprises submitted requisitions for raw materials, equipment, fuel and other items required for production. Capital construction for the relevant departments and bureaux, according to the hierarchical relations, was also required. For nationally and ministerially controlled goods, supply contracts were usually signed between the producers and users at a national ordering conference held twice a year in accordance with the state-allocated quotas. For large allocations, contracts were signed directly between the producer and user. For small allocations, the relevant administrative agencies or the local material supply units combined the allocations and signed contracts with producers.

3.2.2.4 MAIN FEATURES

China's pre-reform supply system had four main features.

1. The division of allocation and administrative responsibility was based on the scarcity of each type of good or product and its impact on the national economy.
2. According to the hierarchical administrative structure, requisitions for producer goods flowed upward and allocation commands downward. Production plans came from above and output allocation decisions were centralised. Responsibilities were divided among several agencies in the categories discussed earlier.
3. Goods were allocated to enterprises primarily according to the hierarchical relations of subordination. The directly supplied enterprises were the results of compromises when the devolution of authority over these key enterprises conflicted with the central control of material resources. This means that the relevant ministries regained control over these enterprises up and down the vertical chain of the administrative

system. The horizontal links between producers and users were merely a complementary and passive means to execute the administrative commands.

4. The flow of goods was settled at prices fixed by the Prices Bureaux of the state, the ministries, the provinces, the cities and the autonomous regions. But these prices had only a passive allocation role. In short, the pre-reform supply system substituted decisions about administrative allocations for the economically efficient exchanges of commodities.

3.2.3 THE IMPACT OF THE PRE-REFORM PLANNING AND SUPPLY SYSTEM

The planning and the supply system played a dominant role in China's economy for 30 years. Under this system, the scope for business was predetermined according to the state's mandatory plan. Market forces were restrained and suppressed. Each enterprise had a planning department to carry out the necessary tasks to complete the state plan. A marketing department was not necessary under this system. The enterprise's sole mission was to implement the ordered plan targets that were set by the state for the enterprise. Thus, the enterprise's activities were guided onto the path of the state's plans. Enterprises operated for so long under "the artificially maintained uncompetitive economic atmosphere" (Deng and Dart, 1995: 7) that they inevitably became dependent on the administrative bureaux. Enterprises were accustomed to ask for instructions in all matters.

Accordingly, enterprises never had to bear the risks of their own actions and never had to worry about the market (Dong, 1987: 50). There was little, if any, incentive for the development of marketing activities (Gordon, 1991). Although enterprises did not believe that it was good to have such extensive government control, they did not believe that it was feasible to dispense with such control. They hoped for some administrative structure to take charge of such matters as

prices and competition (see Section 5.6). Inevitably, this legacy had a major impact on the course of economic reform. From the context of pre-reform Chinese planning and supply system, it can help to understand current Chinese enterprises' marketing behaviour under transition economy.

3.3 ECONOMIC REFORM

From 1949 until at least 1978, China functioned as a very rigid, planned economy. During these three decades, the practice of marketing, as understood in Western societies, did not exist at the enterprise level, and the denial of the efficacy of marketing was an explicit part of China's economic doctrine (Marx, 1970). However, some Chinese economists were aware that severe problems such as surpluses and shortages frequently appeared in the system and greatly hindered China's economic development. Accordingly, several reforms of the centrally planned economy were eventually introduced, beginning with Deng Xiaoping's "open door" policy, which introduced new socialist market thinking, in 1978. Since then, China undertook a number of reforms.

3.3.1 EARLY ECONOMIC REFORM – SOME CONTEXTUAL CHARACTERISTICS

As Zhang (1992: 1) explains, from 1956, when China was in the midst of setting up the centrally planned system, some Chinese economists were aware of its defects. Later, several attempts were made to reform it. From the late 1950s, China's planning system went through several changes and reforms, but they were confined to enterprise status and affiliation. Thus, enterprises still lacked vitality.

- The first economic reform took place in 1958, when the central government delegated the administration of some important state-owned enterprises to the provinces and municipalities. Unified control over the allocation of materials in the central authorities was also greatly reduced.

- The second reform came in 1964, when the central government decided to share with local government appropriate funds and the allocation of some materials.
- In a third attempt to decentralise the state's rigid control over economic management in 1970, about 2,000 enterprises and construction projects were transferred to local governments.

However, all three of these initial reforms were incomplete and lasted for only a very short period of time, with a rapid re-centralisation following each decentralisation. This brought about a vicious circle, as described by a popular saying: "over-centralisation kills initiatives. Lack of initiatives raises outcries for decentraliaation, which in turn causes disorder. And disorder brings centralization back to where it began" (Zhang, 1992).

The core of those reforms was centralisation or decentralisation. But the planning system was not changed and the environmental constraints on marketing were not removed. Enterprises still took a very passive role in their operation. They received all the necessary planned targets from the state. The only task left to enterprises was to organise production within the enterprise according the plans made by the state. Enterprises were treated as workshops and appendages of the state's administrative structure.

3.3.2 RECENT ECONOMIC REFORM

Since the late 1970s, China has become increasingly aware of the need to adapt the original planning system to the evolving complexities of an expanding economy. Commencing in 1978, a series of economic reforms was undertaken. China's reform has been based on macro-economic adjustment, macro-environment change, and the phasing and features of reform measures. Fundamental to the reforms was, first, the shift from a planning mechanism to a market mechanism. Secondly, there was a shift in operational decision-making

power from economic ministries to operational levels (enterprises) in order to increase micro-economic efficiency. Enterprises were allowed to be self-managing financially within central plan guidelines.

The scope of literature reviews on these topics is very wide. Representative examples include Ma (1983), Zhou (1984), Harrold (1992), Blejer *et al.* (1991), Harrold and Lall (1993), Perkins (1988), Taihe (1984), Sun (1994) and Lo (1997). These writers attempted to provide an assessment of the successes and failures of China's reform experience since 1978. For example, Harrold (1992) argues that four distinctive features in terms of reform style emerged, as the programme developed: gradualism, experimentation, partial reforms, decentralisation and self-reinforcing reforms.

In the 1990s, China came to play an increasingly important role as an engine of growth for the world economy. In fact, its economic dynamism started in late 1978 (Fukasaku *et al.*, 1994). The traditional socialist disdain for trade and commerce is well known. Originally, the creation of economic utilities was largely confined to the production sector. Marketing was largely ignored. Within the last 20 years, however, marketing has undergone a radical transformation. The "planned economy under public ownership" has been replaced by the "socialist market economy" (Liu, 1992). This has transferred authority from central planners to local governments and enterprise managers. It has expanded the role of prices and market allocation. Marketing has now achieved official recognition. Enterprises have been pushed to face the market directly.

3.3.3 ENTERPRISE REFORM

These momentous shifts have culminated in significant changes in industrial structure, conduct and enterprises, thus affecting performance. A multi-ownership system has been established and consists of six types of enterprises.

- State-owned enterprises

- Urban collective enterprises
- Township-village collective enterprises
- Small private enterprises
- Joint venture enterprises
- Joint stock system enterprises

(Chinese Statistics Month Books, 1997)

The state enterprises still play a key role but other forms of ownership have been encouraged (Liu, 1986, Deng and Dart, 1995). The enterprises are interested in developing marketing approaches suitable to the changing environment.

Enterprises and government believe that the market-oriented system can increase micro-economic efficiency. This makes theoretical and empirical research into marketing all the more important. The treatment of marketing under socialism has long intrigued outside observers.

Under China's previous economic system, the state-owned enterprise was completely cut off from markets. The types and quantity of products that the enterprise produced had nothing to do with market demand. Production was determined entirely by orders from the responsible higher authorities. After the products were produced, they were not sold by the enterprise in the marketplace but were subjected to the state purchasing monopoly, with the state engaging in centralised marketing. The raw and processed materials and the technical equipment required by the enterprise to carry out production were also supplied entirely by the state. No direct market relationship existed nor was any allowed to exist between the enterprise and the consumers, especially individual consumers. At the same time, no market relationship existed between the enterprise and other producers. There was a horizontal, mutual product-supply relationship among enterprises. Contracts had to be signed in order to stipulate the varieties, quantities and delivery times for the products to be supplied. Everything was determined by state plans. This state of affairs is fundamentally different from a free buy-sell relationship in the marketplace.

With enterprises dissociated from the market and acting according to the directives of the state plans, three problems were unavoidable:

- First, *information*. The information that enterprises needed for production was available solely from the relevant state organisations. There was no way of ensuring the comprehensiveness, truthfulness and timeliness of the information.
- Secondly, *motivation*. The production assignments sent down to the enterprise by the state relied on the consciousness of the enterprise's leaders, staff and workers. There was no impetus deriving from the material benefits of market relationships.
- Thirdly, *competition*. As the enterprise acted entirely in isolation from the market competition, there was no competitive pressure among producers or consumers. Yet competition is essential to promote production, improve quality, and lower costs. Dissociating enterprises from the marketplace had several unwanted results. Production became highly subjective and was thus unable to satisfy society's demand for the abundance of high-quality goods. The distribution and application of goods was very irrational. Enterprises developed so sluggishly that technological progress and the development of new products were greatly hindered. The productivity and economic returns did not improve quickly. Indeed, they tended to decline.

Market forces can affect enterprise behaviour and stimulate improved performance in many ways. Byrd (1987: 239) places particular emphasis on the benefits of cost reduction. Facing an effectively functioning market for their outputs, firms are under strong pressure to reduce costs and use the most efficient technology available. Similarly, market pressure may prevent firms from charging excessively high prices. Eventually, there may be a tendency to eliminate economic profits. There are other ways in which enterprises may have

to respond to market demand: advertising and sales promotion. In general, enterprises facing strong competitive markets have strong incentives to meet customer needs by improving marketing behaviour.

3.4 THE EVOLUTION OF MARKETING IN CHINA

From 1949 until 1979, China functioned under a very rigid and planned economy. During these three decades, the Chinese government denied the efficacy of marketing in its economic doctrine (Deng and Dart, 1995: 7). Decisions concerning what to produce, what prices to charge and what channels to use were made entirely by government officials (Gordon, 1991; Mun, 1984; Zhuang, 1989). The Chinese managers had little, or no, control over decisions involving the marketing mix (Holton, 1985; Mahatoo, 1990). The situation has changed with economic reform.

3.4.1 THE DEFINITION OF MARKETING IN CHINA

After 20 years of economic reforms, marketing academics and practitioners in China have heralded the marketing concept. The word “marketing” is in vogue today in China and the marketing concept is so ubiquitous in the marketing classroom that the student of marketing is generally led to believe that firms who fail to employ this philosophy are business criminals (Jolson, 1978). Most people in China, if asked what marketing is, will respond with a variety of descriptions, e.g. “marketing is a process through which the products of enterprise are delivered to customers”, “marketing means that enterprises provide products of high quality and at low cost to satisfy customers and market needs”, or “marketing means the measures by which the products of enterprise are promoted to the customers” (see Section 5.3.1, Table 5-10).

3.4.1.1 THE GOVERNMENT PERSPECTIVE

From the viewpoint of government, the goal of marketing is to meet the needs of the population, which are scientifically determined in an efficient and equitable manner. This is required in order to bring about continuous improvements in living standards and in the quality of life of the population. This point emphasises the scientific need of satisfaction rather than the traditionally stressed material production. This appears to indicate a shift from a production orientation or sales orientation towards some newly emerging form of marketing orientation.

3.4.1.2 THE ACADEMIC PERSPECTIVE

Chinese marketing academics think that the basic principle of marketing is that an organisation can improve its business performance and make a profit by satisfying consumer needs more effectively than its competitors (Su, 1989 and Zhou, 1992).

3.4.1.3 THE PRACTITIONER'S PERSPECTIVE

Marketing practitioners that think marketing incorporates a variety of promotion measures. They focus marketing strategies in response to market needs and have become preoccupied with advertising, selling and promotion (Yu, 1994 and Li, 1995).

The economic environment in China affects the marketing practice of enterprises and the adoption of the marketing concept. Before 1978, the centrally planned economy sought to satisfy needs through the planning process (see Section 2.4). The enterprises took all their orders from the planned production targets assigned by the state in determining what products and how many products they were to produce. The funds necessary for the enterprises' economic operations were allocated entirely by the state, and all the enterprises'

income was given to the state. The equipment and raw materials needed for production were also all provided by the state. The product offerings of enterprises were limited and the exchange process was typically characterised by a high degree of monopolisation.

More fundamentally, the presence of excess demand (or shortage in the seller's market) suggested that there was no need for enterprises to adopt the marketing concept to improve their business performance. This shortage effectively eliminated any link between the exchange process and organisational performance. Thus, managers were primarily concerned with meeting output targets and did not expect good economic performance to be rewarded. However, poor economic performance had to be penalised. Without the incentive provided by rewards for good performance or the threat of failure as a consequence of poor performance, demand for factor inputs is unconstrained and there is no pressure to identify or meet market demands. Beginning with the Third Plenary Session of the Eleventh Party Congress in December 1978, the regulative role of the market began to develop. Thus, China created an environment of benefit for introducing, studying and applying the marketing concept. Since then China has made encouraging progress marketing research, application and development over three development phases (Kuang, 1990).

3.4.2 THREE PHASES OF THE EVOLUTION OF MARKETING WITH ECONOMIC REFORM IN CHINA

China's economic reform has traversed the course of over 20 years and marketing has developed accordingly. However, there are different ways to define turning points in economic history. In this context, the present research is primarily concerned with key decisions taken by the Chinese Communist Party and government with regard to economic reforms. These decisions then become important reference works (Harrold, 1992).

3.4.2.1 MARKETING'S INTRODUCTION AND COGNITION PHASE (1978-1983)

1. The Features of Economic Reform

In the third plenary session of the 11th Central Committee of the Chinese Communist Party², convened in December 1978, the economic reform policy was initiated. The reform began in the field of agriculture. Experiments with expanded enterprise autonomy also began in the same year. In May 1979, the state started experiments to expand autonomy in eight large state-owned enterprises. By the end of 1980, the number of experimental enterprises in the whole country had increased to 6,600. Reforms to increase enterprise autonomy between 1978 and 1983 focused on three areas:

(1) First, a profit-retention scheme was introduced in the enterprises. The retained part from the basic profit of enterprises included a production development fund, a trial-product fund, a reserve fund, a bonus fund, and a workers' welfare fund.

(2) Secondly, there was a preliminary price reform. Its most important feature was the introduction of a dual price system. "The dual price system was that planned prices would be applied to products covered by state plan quotas and market prices to products outside the quotas" (Hay, 1994: 7). The principle of the dual price system was to induce enterprises to face market competition without causing a sudden disruption of the planning mechanism. By progressively increasing the share of production outside the state plan, market

² The Plenary Session of the Central Committee of the Chinese Communist Party and National Congress of the Chinese Communist Party: The PRC government is controlled by the Chinese Communist Party. The National Party Congress represents the source of authority and is the agent which legitimises the operative central organisations of the party. Under the party roles established in 1956, the Congress should be held every five years to decide the long-term policy lines for the coming years and to approve changes in the membership of the Central Committee, which is formed by top leaders of the party. The Central Committee meets in plenary session only on special occasions, which are marked by the announcement of new policy decisions worked out in the Politburo or the Standing Committee (Schurmann, 1968).

forces would play an increasingly major role in guiding resource allocation. Under the dual price system, enterprises would be forced to face the market and meet the requirements of the state macroeconomic plan.

(3) Thirdly, there was managerial reform. Implicit in the whole reform process was the ceding of much greater autonomy to enterprises so that managers would make decisions about the allocation of resources. In the period 1979-82, the profit-retention scheme was associated with greater managerial autonomy in an early form of contract responsibility, involving the fulfillment of production targets of various kinds.

2. The Features of Marketing

Along with the expansion of enterprises' autonomy, the marketing concept was established in China. This was accompanied by the growth of various marketing-related academic activities such as training, teaching and research. First, academics and scholars translated a number of foreign marketing textbooks and marketing magazines into Chinese. For example, Shanghai Finance and Economics University translated Philip Kotler's "Marketing Management". Many universities and other educational institutions sent students and visitors to North America, Western Europe, Japan and Northeast Asia to study business. They also invited foreign scholars and specialists to China to lecture in marketing management. A number of foreign management programmes were set up in China, such as the Sino-US National Centre for Industrial Science and Technology Management Development (Dalian City).

Secondly, scholars explored the marketing concept, although they could not reach an agreement. One opinion was that marketing should be focused on the study of enterprises' marketing practice. Another opinion emphasised marketing strategy. Research was still limited mainly to the universities and institutes.

Thirdly, in order to adapt to a new environment, many enterprises set up marketing departments to develop marketing strategies and monitor marketing activities. Many enterprises saw the marketing department as a guarantee of survival because they thought enterprises with a strong marketing department will lead to more positive marketing activities than enterprises with a weak marketing department. However, most enterprises simply continued to increase output vigorously until a constraint could not be overcome or there was a change in market conditions, and they made no attempt to cut costs, develop new products, or meet customer needs. They just relied on their sales efforts. Generally, Chinese enterprises did not understand and apply the marketing concept during this stage. A production orientation was adopted by most enterprises.

3.4.2.2 PROPAGATION AND DEVELOPMENT PHASE (1984-1992)

1. The Features of Economic Reform

The “Decision of the Central Committee of the Communist Party of China on the Reform of the Economic Structure” was approved by the Third Plenary Session of the 12th Party Congress in 1984. It stated that China was a planned commodity economy, and not a market economy that was completely regulated by the market. This statement launched the adoption of the grand reform resolution in favour of an overall economic restructuring that required reform measures in almost every production and management sphere, including prices and wages, finance, currency, trade and taxation. Furthermore, as Anyansi-Archibong (1989) observed, the socialist modernisation of China entered a new era of growth. By implementing the consolidation and rectification policy, the Chinese government successfully overhauled the country’s economy in 1991 (Luk, 1998).

Under price reform, the dual pricing system emerged. Different prices could be charged for identical goods, the main distinction being different price-setting methods. Four different types of prices could be distinguished:

- “State prices set by the central government pricing bureau. Industrial goods that are subjected to this control are essential production materials.
- Local government prices set by local pricing bureaux for industrial goods, and controlled by related provincial governments. Usually, the plan-quota output of an enterprise is partially allocated to the central government plan and partially to the local government plan. Thus it is not unusual for enterprises to face two different state procurement prices.
- Ceiling-market prices are set by local price bureaux to control and limit the market prices.
- Market prices determined by the enterprise on the basis of cost and its judgment of what the market will bear.”

(Hay, 1994: 32)

These changes significantly diminished the role of the government bureaucracy as a dispatcher, arranging deliveries and purchases in minute detail. Enterprises now had some autonomy to set their own output targets and product prices according to customers' needs.

2. The Features of Marketing

During this phase, scholars and academics started to recognise that only by combining the Western marketing concept with the objective practice of China as well as enterprises' management practices could the modern marketing

concept be accepted by most Chinese enterprises. Thus there was an attempt to establish an appropriate Chinese socialist marketing approach.

Government bodies also became interested in marketing. For instance, the Association of Marketing of Chinese Universities was founded by government bureaux in 1984 (Kuang, 1990). Also, many research organisations were established. A number of joint management training programmes with business schools from Western Europe and America were undertaken.

Market forces affected many aspects of business behaviour, including the marketing behaviour of Chinese firms, which sought to apply marketing strategy and improve performance in many ways. Enterprises were under strong pressure to reduce costs and use the most efficient technology available. At this stage, enterprises recognised that a sales department alone could no longer meet the requirements of the changing environment. A specific marketing department with marketing specialists was thought necessary to establish marketing targets and strategies (Tang, 1997).

The marketing strategies included attempts to increase sales by lowering prices and by changing products. Enterprises applied extensive advertising and other forms of sales promotion. Faced with heightened competition, enterprises also had a strong incentive to meet customer needs by improving marketing and distribution through the provision of warranties and after-sales service. Market competition also generated strong incentives to improve or maintain product quality. More enterprises recognised that they needed marketing. Firms understood that they were more able to sell what they made well. Production orientation, sales orientation and customer orientation behaviour were found among the different types of Chinese enterprises. A survey conducted in 1987 concluded that the business concept of manufacturing enterprises had changed from a production orientation to a production-market orientation (Lu, Zhang, and Yan, 1988).

At this time, there were clear cases of enterprises successfully employing marketing principles and strategies, e.g. the 'liang mian zhen' toothpaste of Guangxi Province and the 'fang can' toothpaste of Anhui Province. They both applied market segmentation and product advertising, and succeeded in capturing the toothpaste market in many provinces of China (Kuang, 1990). These changes in Chinese enterprises' marketing behaviour, market structure, and enterprises control were also recognised by Western academics (Thorelli, 1983; Holton, 1985; Byrd, 1986, 1987; Vernon-Wortzel and Wortzel, 1987; Child, 1987; Brewster, Brown, and Burns, 1988).

The main characteristic of this phase was that all marketing activities, including teaching, research and enterprises' marketing practice, followed the framework of the marketing system in the West.

3.4.2.3 THE DISSEMINATION AND IMPLEMENTATION PHASE (1992 TO THE PRESENT)

The process of economic reform regained its momentum in the year after the chief designer of China's economic reform, Deng Xiaoping, made an inspection tour to the Shenzhen Economic Zone in 1992. During his visit, Deng stressed that a "socialist market economy" should be a market economy with public ownership as its basis. The Eighth People's Congress subsequently passed an amendment to the constitution to enshrine into law Deng's theory of the "socialist market economy", a credo that anticipated the use of market mechanisms as a mean of boosting the Chinese economy (Deng and Dart, 1995: 6). The passing of this amendment officially replaced the planned economy with a "socialist market economy" in an attempt to combine the best features of both planned and market systems (People's Daily, 1993).

At the end of 1993, the government passed the "Decision on Some Issues Concerning the Establishment of a Socialist Market Economic System", which stated that the market mechanism would serve as a fundamental factor in the

disposition of resources under the state's macro-level control, and that all forms of ownership (state, collective and private) should co-exist to activate the national economy. Market entry by urban and rural collective enterprises was not restricted. Entry by joint ventures and foreign firms depended on the type of product. For most state-owned enterprises, the situation was identical to that of all other enterprises outside the planning system.

However, the old system was not eliminated completely, nor was the new system established truthfully (Xia and Xiao, 1995). Many of the distortions and rigidities of the former central planning system were reduced. Economic agents based on market signals were observed. The situation moved the economy away from a seller's market to a purely buyer's market. Enterprises now face strong competitive markets in which not only are prices cut, but also there is a clear market and marketing orientation. Firms have identified appropriate target markets and developed products which meet the needs of those target markets now and in the future. Because the enterprises have gained autonomy, they care about their own profits and losses, and hence respond quickly to market signals. Market competition is intense. The enterprises are increasing their use of Western marketing concepts. They have recognised that the goal of marketing is to create maximum long-term profit by identifying and meeting customer needs. At the same time, a large number of well-educated managers have been promoted to key positions. The ongoing process of economic reform has further reduced the institutional gap between the Chinese economy and the market economy, and has created a better environment for the adoption of the marketing concept.

Improvement of the marketing environment provides useful conditions for enterprises to employ the modern marketing concept and strategy in marketing practice. Marketing now has the potential not only to improve business performance but also to stimulate economic development and facilitate the process of economic reform. Forming a buyer's market has stimulated the development of various market survey techniques and sales promotion tools.

Great importance is now attached to the enterprises' sales sector. Market orientation is the enterprises' guiding principle. However, the application of marketing concepts to direct operations has not been entirely balanced across different regions and different industries. In particular, the following problems may be noted.

Enterprises producing mandatory plan products have seldom applied the marketing concept, but enterprises producing guidance plan products have generally applied the concept. Similarly, while heavy industry (the traffic industry, raw materials industry, etc.) has not generally applied the marketing concept, light industry (food, textiles, etc.) has applied the concept.

Coastal enterprises have applied the marketing concept far more. TVEs (town-village enterprises) have applied the marketing concept and marketing strategy in more interesting ways than SOEs (state-owned enterprises) (Gong, 1993).

When applying the marketing concept and marketing strategy, most enterprises lay particular stress on the 4Ps, market segmentation and positioning, the channel of distribution and sales promotion. In marketing, price competition is still intense, but some enterprises have employed a non-price competition strategy.

Although the marketing concept is widely advocated and applied in a variety of commercial contexts, it is by no means clear that it is essential in all enterprises' management practices and all exchange relationships. Marketing directors are not in a position to lead enterprise performance. Marketing activities are performed by business organisations only to sell products. The marketing concept of most enterprises is located between the sales concept and the marketing concept. In general, enterprises treat marketing as a technique that can raise sales efficiency. The non-sale sectors – e.g, the production, personal and financial sectors -- have not yet completely accepted the marketing concept.

3.5 KEY FACTORS THAT INFLUENCE CHINESE ENTERPRISES' MARKETING BEHAVIOUR

Within the past 20 years of economic reform, Chinese enterprises' operating environment has changed dramatically. Changes in the consumer and industrial markets, in the nature and scope of government control, in competition have put Chinese enterprises under great pressure to change their management concept, management system and behaviour. Organisational and managerial theories suggest that, in order to survive and flourish, enterprises must be compatible with their environments, which include all the external social, economic, and political conditions that influence their operations (Sun, 2000: 380). Since the purpose of this research is to investigate a number of issues related to the application of the marketing concept and marketing behaviour of Chinese enterprises in the context of the Chinese business environment, the research will now focus on the specific factors which facilitate or hinder the application of the marketing concept, such as competition, government control and the impact of economic development and the Western concept.

3.5.1 THE COMPETITION FACTOR

The competition factor includes the market effect and the enterprise's competitiveness. Different market effect combinations create different degrees of competition for the enterprise. This is the inherent driving force behind marketing orientation. When competition is weak, enterprises try to achieve their economic goals with the least effort and at minimum cost. For example, when demand greatly exceeds supply, enterprises sell what they produce in a seller's market and less effort is required to market their products. As competition intensifies, enterprises are forced to perform better than their competitors. Therefore, more effort and more costs are involved to make marketing viable and profitable in order to attract and retain customers. These efforts, forced by the market effect, enhance the enterprise's competitiveness.

The adoption of a marketing orientation is the result of an increased market effect (Lynn, 1969; Cheng and Bell, 1970; Kotler, 1988).

A recent study of Chinese managerial attitudes found that the collectivist orientation of Chinese culture “may place limits on destructive competition and may induce certain market imperfections” (Tse *et al.*, 1988: 83). In fact, “non-competitiveness” has been identified as a key component of Chinese cultural values (The Chinese Cultural Connection, 1987), and a collective orientation “might resist competitive outcomes that threaten the egalitarian success of the group of participants as a whole” (Kachelmeier and Shehata, 1992). In a survey conducted by Tse *et al.* (1988), it was shown that Chinese organisations were significantly more willing than their Western counterparts to cooperate with a competitor in a proposed joint venture when an alternative, non-cooperative strategy was more likely to maximise profits and eliminate the competition.

3.5.2 THE GOVERNMENT CONTROL FACTOR

Under the socialist economic planning system in China, central government controlled the economy through administrative systems and divisions, and intrinsic market relations within the economy were cut off (Chen, 1987). Most targets in the economic plan were set rigidly set by the higher authorities and handed down in the form of directives, so that enterprises and consumers did not contact each other directly. Production was not coordinated with marketing and was divorced from consumers’ needs and wants. Enterprises had to turn over all revenues to the state, which also subsidised losses. As a result, they did not feel any economic responsibility or competitive pressures. Their only concern was to meet the targets of the state’s plan. Thus it was impossible for enterprises to adopt a marketing orientation.

Government control can be classified as direct or indirect (Liu, 1991, Huang *et al.*, 1999). Direct control is plan-control by either governmental bureaux or corporate headquarters in production, purchase (supply), sales, price,

distribution, personnel and finance or any other policy areas which directly involve the operational process and direction of the enterprise. Indirect control can take on a variety of forms, such as regulations, laws, policies or other personal influences (Gardiner, 1985, Liu, 1991). This research mainly discusses types of direct control.

As economic reform has progressed, enterprises have gained more and more decision-making rights in relation to production, prices, technical innovation and distribution channel. Direct government controls were greatly reduced or replaced by indirect control. Enterprises increasingly found that they could decide what, how and how much to produce in response to customers' needs and the market situation. Deng and Dart (1999) concluded, "many enterprises in the uncontrolled sectors are in the process of developing the type of market orientation that underlies the practice of modern marketing". As already explained, this research seeks to relate the level of government control to the adoption by enterprises of a market orientation and the strength of that orientation. Two basic questions are put forward that whether enterprises with positive marketing activities must be less government controlled than enterprises with narrow marketing activities and enterprises with less government controlled more tend to adopt marketing orientation than enterprises with strong government controlled. This research will test these two questions.

3.5.3 THE IMPACT OF ECONOMIC DEVELOPMENT

As discussed previously, under the planning system enterprises were driven by central planners rather than customers, the opportunities for enterprises to vary their product offerings were limited, and the exchange process was typically characterised by a high degree of monopolisation. The presence of excess demand meant that there was no need for enterprises to adopt the marketing concept in order to improve their business performance. Enterprises' lack of decision-making power meant that the value of the marketing concept was limited.

In the last two decades, China's economic reform has fundamentally transformed all sectors of the economy in the direction of a market orientation. Despite many obstacles, the Chinese industrial sector has undergone dramatic changes, including the transfer of decision-making powers from the government authorities to enterprise directors. Rapid increases in consumer purchasing power and changing spending patterns have driven up the sales of many consumer goods (Gavin, 1994, Piturro, 1994). Based on these macro-level changes, enterprises have attempted to adopt the marketing concept and market orientation to improve their performance from attitude and behaviour. "Marketing activities play an essential role in revitalizing the economy" (Deng and Dart, 1995: 9).

3.5.4 THE IMPACT OF WESTERN MARKETING PRACTICES

A series of market oriented reforms in China, for example, the introduction of stock market and bankruptcy laws, and the establishment of a social security system and a free labor market has impelled Chinese enterprises to adopt Western marketing practices. Many Western concepts such as efficiency, competition and the free market have become a part of ordinary Chinese life, thereby creating a supportive environment for the conduct of marketing activities.

The study of environmental uncertainty, particularly in the context of a transition economy, involves the attempt to examine the enterprise's adaptability to changes in the competitive or general business environment (Peggy *et al.*, 1994). However, detailed attention to environmental conditions is beyond the scope of this research because of its focus on the micro-level factors that influence the enterprise's strategies and marketing orientation.

3.6 SUMMARY

Marketing in China has gone through a different pattern of development from the pattern in most Western countries due to the specific characteristics of China's economic development.

Generally, from the 1950s to the late 1970s (the pre-reform stage), the Chinese government implemented a centralised planning system with the aim of establishing a socialist economy. The planning system was mandatory and was allocated by the state, and covered the whole macro sphere of society through a series of state plans, sector plans and regional plans. The micro sphere of individual economic units, including production, supply and marketing within the enterprise, was also formed by the state. In practice, this meant that the state determined a production plan, provided equipment and raw materials to the enterprises, allocated funding for the enterprises' operation, and monopolised the purchasing and marketing of products.

There were two supply systems: the State Material Supply Ministry and the State Commerce Ministry. The former was in charge of the supply of production goods, while the latter dealt with agricultural raw materials and consumer goods. Both systems had sub-systems at different levels. At each level of government, there was a Material Supply Bureau under the State Material Supply Ministry. The latter had a number of specialised national material enterprises, which had their own first-level supply and purchasing stations that dealt with nationally allocated goods. The Material Supply Bureau also set up a number of specialised companies and supply agencies at provincial, municipal and autonomous regional levels. The State Commerce Ministry administered the distribution of consumer goods within a three-level wholesale network. The first level specialised in national corporations in major cities, while the second level focused on purchasing and supply stations in other major and medium-sized cities. Finally, third-level wholesale outlets were at the county level.

China's pre-reform supply system for state-owned enterprises demonstrated four main characteristics: (1) the division of allocation and administrative responsibility was based on each type of product's scarcity and impact on the national economy; (2) the administrative structure was hierarchical, i.e. requisitions for production goods flowed upwards and the allocation commands downwards; production plans came from the top management and output allocation decisions were centralized, with responsibilities being divided among several agencies; (3) goods were allocated to enterprises primarily according to the relationship of subordination'; (4) goods were given a fixed price set by the Prices Bureaux of the state, ministries, provinces, cities and autonomous regions.

The planning system went through several centralising and decentralising reforms in 1958, 1964 and 1970. However, all these processes were incomplete and short-term and involved rapid recentralisation soon after decentralisation. The planning system did not change fundamentally and enterprises were still not independent economic units capable of autonomous operations. They were completely cut off from markets and were subjected to monopolised state supply and purchase. The state engaged in centralised marketing, while marketing at the enterprise level was largely ignored.

The current economic reform started in 1978 and was based on macro-economic adjustment, macro-environmental changes, and the phasing of specific reform measures with the aim of transforming the planning system into a market economy system. Operational and financial decision-making power was shifted from the economic ministries to enterprises in order to increase micro-economic efficiency.

While state enterprises still play a key role, the market economy system now encourages multiple types of ownership, including urban collective enterprises, township-village collective enterprises, small private enterprises, and joint venture enterprises. Enterprise performance is closely linked to competition in

the marketplace. These changes make both theoretical and empirical research all the more important.

The marketing concept is accepted in different ways in China. The government thinks that the goal of marketing is to meet the needs of the population.

Academics believe that the basic purpose of marketing is to enable an organisation to improve its business performance and make profits by satisfying consumer needs. Practitioners tend to view marketing as a variety of promotion measures (Yu, 1994; Li, 1995).

In general, marketing in China has gone through three phases. The first was the introduction and cognition phase (1978-1983), which accompanied the establishment of enterprise profit-retention through the price system and greater enterprise autonomy. There was the emergence of various marketing-related academic activities such as training, teaching and research in marketing.

However, most enterprises did not understand and did not apply the marketing concept. The second phase was the propagation and development phase (1984-1992). The economy demonstrated the features of accelerated reform, an intensified dual-pricing system, and increased household income. It was realised that Western marketing concepts must be combined with the objective practice of China as well as enterprises' management practices in order to develop an appropriate socialist marketing system. Changes in Chinese enterprises' marketing behaviour, market structure, and enterprise control were recognised by Western academics. Thirdly, since 1992 marketing in China has entered the initial utilisation phase. Economic reform has been intensified in order to provide an improved marketing environment for enterprises to employ modern marketing concept and strategies. Marketing has demonstrated its potential to improve business performance, stimulate economic development, and facilitate the process of economic reform. The marketing concept has been widely advocated and applied. But it is not clear that the marketing concept is essential in all enterprise management practices.

China's economy is now undergoing a major transition. However, the new economic system is deeply rooted in the old planning system. Taking this into consideration, there are several key factors that influence Chinese enterprises' marketing behaviour: the enterprise's ownership, the scope of marketing competition, the impact of economic development and the impact of the Western marketing concept, and the extent of government control. This study will investigate the impact of these factors on Chinese enterprises' marketing behaviour. In particular, the research seeks: (1) to explore the influence of government control on the enterprise's marketing activities and attitude toward marketing orientation; (2) to identify the impact of the marketing department on the enterprise's marketing activities and the influence of those activities on the enterprise's competitiveness; (3) to examine the influence of enterprises' ownership structure on the adoption of the marketing concept and the development of a market orientation; (4) to examine the extent to which Chinese enterprises currently accept the marketing concept and have developed a marketing orientation and (5) to assess the applicability of the marketing concept and marketing strategy as developed in the Western context to China's distinctive characteristics (*guoqing*).

4 RESEARCH DESIGN AND METHODOLOGY

- 4.1 *Introduction*
- 4.2 *Research Design*
- 4.3 *Research Biases*
- 4.4 *Univariate Statistics*
- 4.5 *Bivariate Statistics*
- 4.6 *Multivariate Statistics*
- 4.7 *Summary*

4.1 INTRODUCTION

This chapter describes the research design and methodology. There are seven sections. Following this introduction, Section 4.2 presents an overview of the research design. It explains the design, measurement, scaling, validation and pre-testing of the questionnaire, and the sampling procedures and data collection methods that were employed. The question of possible biases in the research is discussed in Section 4.3. The second part of the chapter (Sections 4.4 to 4.6) explains the various statistical techniques that were used in the process of data analysis and the testing of hypotheses: the *Student's t*-test, *Chi-square* Test, factor analysis and cluster analysis. Attention is also given to the functions of the statistical techniques and the situations in which their use is appropriate. Finally, there is a summary of the chapter in Section 4.7.

4.2 RESEARCH DESIGN

The aim of the research design is to achieve “precision, logic-tightness and efficient use of resources” (Oppenheim, 1992). The research design involves choosing the research approaches, the survey method to be adopted and appropriate methods of sampling, data collection and analysis (Wright and Crimp, 2000: 7). The research design is a central part of research activity. As Chisnall (2001: 34) points out, “an effective research design should be a comprehensive plan, developed after intensive study of the problem to be researched, that will guide and control the entire research programme”.

4.2.1 RESEARCH APPROACHES

There are two approaches in the marketing research: the quantitative research and the qualitative research. Underlying each is a different conceptual framework. As Wright and Crimp noted (2000: 374), Quantitative research is carried out within the framework of a scientific method. Standardised questionnaires are used to collect the data, which are then formally analysed and represented in a numerical format. Qualitative research is focused on trying to represent the consumer and their world as accurately as possible. Most of qualitative research involves face-to-face interviewing. There are merits in both approaches and they should be seen to be mutually supportive rather than exclusive. Thus, many marketing researchers use both approaches.

In this research both quantitative and qualitative approaches were used. The qualitative approach was used in pre-testing the questionnaire in order to discover whether the respondents had any difficulty in answering the questions. In general there are three ways of obtaining data from the respondents: (1) personal interview, (2) telephone interview, and (3) mailed questionnaire. Since the third option is relatively low in cost, and since the geographical distance between the UK and China makes the other two options even more expensive, the mailed questionnaire was applied here to collect data from 820 Chinese enterprises. The quantitative approach was then used to analyse data.

4.2.2 QUESTIONNAIRE DESIGN

According to Hague (1993: 11-12), the purposes of questionnaires are: to draw accurate information from respondents; to provide a structure to the interview so that it flows smoothly and in an orderly fashion; to provide a standard format on which facts, comments and attitudes can be recorded; and to facilitate data processing. For a questionnaire to be successful, it must take the respondents through the answering process in such a way that he or she finds it easy to give accurate answers to the questions. In addition, taking into account what is

required from the questionnaire survey, special attention must be taken to approach the questions from the viewpoint of the respondents.

4.2.2.1 DESIGN

Liu (1991) applied a questionnaire to conduct a postal survey involving 636 Chinese enterprises. His study focused on the general factors encouraging and discouraging marketing orientation in the UK and China. The questionnaire was employed as a guide and it assisted in the design of the questionnaire to identify the constructs and variables in the research. Therefore, a Chinese language questionnaire was developed for the survey based on the research objectives and an extensive literature review. Subsequently, the corrected Chinese language version was piloted in England with inward Chinese delegations. Most questions required answers on a close-ended basis.

1. Questionnaire

In the questionnaire for this study (see Appendix 3), the top of the front page gives the title of the research (“A Survey of Chinese Enterprises’ Marketing Behaviour”), the instructions regarding the completion of the questionnaire, and a statement about confidentiality. Underneath are spaces for general data about each enterprise: name, location and the name and title of the person to whom the questionnaire is sent for completion.

The questionnaire consists of five parts. The first part, which concerns the enterprise’s background (Q1-Q10), contains questions asking for basic demographic data, including the enterprise’s age, size, ownership, main products, turnover and links with Western companies. The classification of each question is based on the research hypotheses, the literature review, the experience of the researcher, and comments from the pre-test. Regarding the approximate turnover of enterprises, there was originally only one question (Q7) asking about the value of turnover in the pre-test. However, through the pre-test it was found that it was difficult to complete this particular question. This was

because not all respondents knew the exact turnover figure for the enterprise. Even if this information was available, some Chinese enterprises treat the annual turnover as strictly confidential. Therefore, a sub-question on “profit or loss” was added.

Since economic reform, marketing departments have been established in most enterprises in China. To identify the influence of the marketing department on the enterprise’s marketing activities and understanding of the marketing concept, the second part (Q1-Q18) of the questionnaire covers questions about the marketing department’s structure, relationship with other functional departments, the role of marketing department and the changes of marketing departments after the economic reform, and the understanding and adoption of the marketing concept. Although China’s economic reforms are well documented, there is a general lack of empirical evidence about the impact on enterprises, especially enterprises’ marketing orientation and marketing behaviour.

The third part (Q1-24) of the questionnaire investigates current marketing practices in Chinese enterprises to explore the relationships between the enterprise’s ownership structure, marketing activities and marketing orientation. This includes questions concerning marketing orientation, promotion methods, pricing decisions, marketing research and planning practice, and the future objectives of the enterprise. These relate to most aspects of Chinese enterprises’ marketing activities except for marketing competition. All respondents were asked to give their opinions about marketing practices in Chinese enterprises by answering all 24 questions.

A study by Doyle and Wong (1996: 531) found that “the strongest marketing predictors are a focus on creating sustainable competitive advantage, good cross-departmental relationships... marketing alone cannot guarantee success”. The fourth part of the questionnaire (Q1-Q11) seeks to assess the influence of marketing activities on the enterprise’s competitiveness and the barriers to

marketing competition. It includes questions about the enterprise's competitive status, the collection of information about competitors and their strategies, as well as the nature and limits of marketing competition in China. Fair competition and "no-deal-relations" issues are addressed in Questions 9 to 11.

The fifth part of the questionnaire (Q1-Q10) explores the influence of government control on the enterprise's marketing activities and attitude toward marketing orientation. It includes questions about the government authorities' control of the enterprise's marketing practices, and about respondents' attitudes to government control. All of the questions included in this part are close-ended questions in order to provide a clear picture of the effects and influences of government authorities in determining Chinese enterprises' marketing behaviour.

2. Open-ended Questions

The questionnaire includes four open-ended questions (Q2.1, Q2.3, Q3.19 and Q4.11) to generate a rich variety of responses. These questions are used in this research when it is considered important to allow respondents to answer in their own words. For example, when attitudinal or "why" questions are being asked, there is room for doubt (Wright and Crimp, 2000: 147) and respondents need the chance to comment on any issue. There are total of four open-ended questions in this survey questionnaire.

3. "Don't Know" and "No Answer"

When undertaking a questionnaire survey, it is unrealistic to assume that all respondents will answer all the questions (Lin, 1996: 80). The respondent may not know the answer or may not be in a position to answer the question. Often, the respondent really does not want to answer the question, probably for personal reasons. In these situations, the question will frequently elicit "don't

know” or “no answer” responses. A procedure is required to ensure that these responses are properly coded and handled.

Boyd *et al.* (1989: 485) suggests three ways of handling the “don’t know” problem:

1. Show the “don’t know” responses as a separate category. This is the best procedure, for it does not mislead the reader about what has happened.
2. Estimate answers from other data contained in the questionnaire. Occasionally the “don’t know” answer can be inferred by studying other information contained in the questionnaire.
3. Distribute the “don’t know” responses proportionally amongst the other categories. This procedure assumes that the remainder of the sample will be a universal representation. However, this assumption may not be correct and therefore if the extent of the “don’t know” responses is not shown, the reader may be misled.

In this research, a combination of all three methods is used. Some of the “don’t know” were distributed to a suitable category in the same question. Some of the “don’t know” were treated as a separate category. Sometime, researcher estimated answers from other data contained in the questionnaire.

4.2.2.2 MEASUREMENT AND SCALING

Walsh (1990: 7) points out that “measurement is the process of assigning numbers to variables according to a set of rules”. These rules apply to various types of measurement. According to Kinnear and Taylor (1991: 222), “Measurement is concerned with developing a correspondence between the

empirical system¹ (e.g., preference) and the abstract system² (e. g., numbers)". The scales used for attitude and behaviour measurement are nominal, ordinal, interval and ratio (Lorr, 1983: 15, Churchill, 1983: 246). As Boyd, Westfall and Stasch (1985: 311) observe, "scaling is the term commonly used to refer to the process of measuring attitudes. Measurement, or scaling, suggests some form of quantification which can be expressed in such numbers as we use to scale distances".

1. Nominal Scale

A nominal scale is a scale of numbers that is used to represent the identity of the object. An example of a typical nominal scale in marketing research is the coding of males as 1 and females as 2.

2. Ordinal Scale

An ordinal scale represents consistent rank orders and establishes the relative importance in rank order of the attitude statements (Wright and Crimp, 2000: 157). When investigating enterprises' future marketing objectives, for example, we can ask respondents to rank objectives such as "develop new products", "increase market share", "improve product quality", "launch famous brand" in order of importance. Then ordinal values are assigned to these objectives.

3. Interval Scale

An interval scale is a special ordinal scale which not only indicate orders but also measures order (or distance) in units of equal intervals (Zikmund, 1991: 358). The location of the zero point is arbitrary on the interval scale. In marketing, an interval scale is often used for measuring attitudes and opinions.

3. Ratio Scale

A ratio scale is similar to the interval scale except that it has "a natural or absolute zero, one for which there is universal agreement as to its location"

¹ The empirical system includes marketing phenomena, such as buyer reactions to products or advertisements.

² The abstract system includes the numbers used to represent the marketing phenomena.

(Churchill, 1983: 246). The significance for data analysis of having a ratio scale is not great compared with other methods of measuring interval scaled data (Kinnear and Taylor, 1991: 229). Ratio scales are seldom encountered in the social sciences (Lorr, 1983: 15).

In this research, a questionnaire was designed to gather information concerning enterprises' marketing activities, the structure and operation of the marketing department, the nature, scope and impact of competition, and the significance of government control. Because of the nature of the questions being surveyed, nominal, ordinal and interval scales were used (see Appendix 3).

4.2.2.3 QUESTIONNAIRE VALIDATION AND PRE-TESTING

A validation and pre-test to enhance the reliability and validity of the research were conducted before the final launch of the questionnaire.

1. Validation

The objective of the validation was to check for cultural and linguistic sensitivities and the comprehensibility of the questionnaire. The validation can evaluate the validity measure. There are several types of validation methods.

The following are the three most popular methods:

- 1) Content validity deals with the subjective assessment by an expert of the appropriateness of the measurements. This is a common method used in marketing research.
- 2) Criterion-related validity deals with the predictive or external validity of a dimension. It involves the ability of a measured marketing phenomenon at one point in time to predict another marketing phenomenon at a future point in time.

- 3) Construct validity involves understanding the theoretical rationale underlying the obtained measurements and helps to ensure that the classification of items into dimensions is correct.

(Madu *et al.*, 1996; Kinnear and Taylor, 1991: 234-235)

All three of these validation methods were used in this study. First, the questionnaire was translated into English in May 1996. Then, the Chinese version was handed to the China Marketing Association in Beijing in August 1996 and the English version was handed to two marketing experts and three marketing students at the Warwick Business School. A total of seven knowledgeable experts (academics and industrial practitioners) and five from the UK reviewed the questionnaire prior to the pre-test. The contents of the questionnaire were approved after a few minor changes were suggested. For example, Q3.11 was changed to correspond to the Chinese price-decision system.

2. Pre-testing

The main objective of the pre-test was to check whether respondents would have any difficulty in answering the questions. After the validation of the questionnaire, the pre-testing was carried out in the UK.

At the business working lunches, organised by Coventry Chamber of Commerce in Coventry during September 1996, the questionnaires were first handed to 16 participants for them to complete. The participants were chosen from two Chinese trade delegations. They were senior managers who were responsible for enterprise marketing from the Chinese light, automobile and machinery industries. The pre-test questionnaires had to be returned the next day. Also, interviews were conducted with each delegate to go through all of the questions.

From the pre-testing it appeared that the questionnaire was easy to understand. Fifteen out of 16 participants had no difficulty in filling in the questionnaire. One participant had difficulty due to a lack of marketing knowledge.

On the basis of the validation and pre-testing, the questionnaire was revised and a final version was produced.

4.2.3 SAMPLE SELECTION

Sampling is one of the major tools of marketing research, and is concerned with collecting, analysing, and interpreting market data. A good appreciation of the function and principal methods of sampling is particularly important for market researchers (Chisnall, 2001: 68).

4.2.3.1 THE BASIS OF SAMPLING

A sample is a smaller group of objects or individuals selected from the population for actual participation in the research (Roscoe, 1969: 133). For virtually all statistical research in the behavioural sciences, the intention is to use information derived from a representative sample in order to make statements about the population from which the sample was drawn (Walsh, 1990: 4). Sampling is used very frequently in marketing research.

There are two basic methods of sampling: probability and non-probability. Each category has a variety of sampling procedures (Kinneer and Taylor, 1991: 397) as shown in Figure 4-1.

Three widely used non-probability methods are:

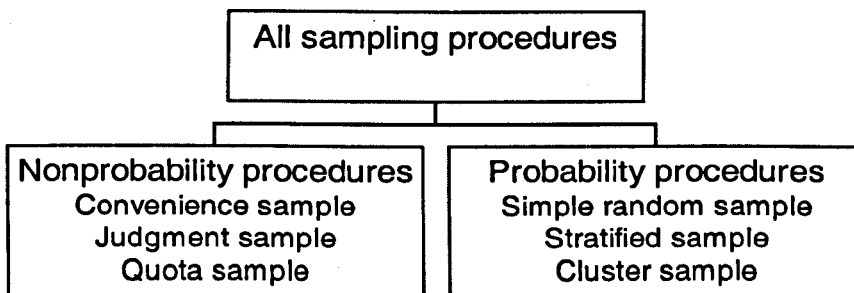
Convenience sampling. Convenience samples are selected to suit the convenience of the researcher. In all cases, it is unclear what population

the actual sample is drawn from. Thus, sampling error cannot be measured.

Judgement sampling. Judgement samples are selected on the basis of what an expert thinks those particular sampling units will contribute to answering the particular research question at hand. The selection of the sample is dependent on human judgement. The disadvantage is that the degree and direction of error are unknown, and thus definite statements are not meaningful.

Quota sampling. Quota samples are a special form of judgement sampling. The biases arising from the non-probability method of selection are controlled to some extent by stratification, weighting and the setting of quotas for each stratum.

(Chisnall, 2001; Kinnear and Taylor, 1991)



Source: Kinnear and Taylor (1991: 397).

Figure 4-1 Sampling Procedures

Simple random sampling and *stratified random sampling* are two of the more usual methods of probability sampling. When all individuals have an equal probability of selection, then the process of selection is known as *simple random sampling*. *Stratified random sampling* is designed to subdivide a heterogeneous population into homogeneous subsets, called strata, and randomly select

individuals from each subset as in simple random sampling. Stratified random sampling can be proportional or disproportionate (Walsh, 1990: 80-81).

Ideally, a probability sampling method should be used because it provides a measure of the accuracy of the sampling results, even if there is no guarantee that the results obtained with a probability sample will be more accurate than those obtained with a non-probability sample (Kinnear and Taylor, 1991: 403). However, a non-probability sampling method may be very useful for certain types of enquiries with suitably devised controls (Chisnall, 2001: 125). Since there is no available listing from China for sampling enterprises and no census data to provide the characteristics of the population as a whole, the non-probability sampling procedure is used in this research.

4.2.3.2 SAMPLE SELECTION

China is an enormous country, with 30 provinces, and there are a very large number and types of enterprises. Moreover, there is no listing of all enterprises that can be accessed. In the absence of a sampling frame containing the full population of target enterprises, and because of the need to secure cooperation for the data collection process, the researcher decided to use the membership lists of the *China Council for the Promotion of International Trade* (CCPIT) as the sample frame. CCPIT has a sub-council in every province, and each sub-council has member industrial and commercial enterprises.

On identification of the sampling frame process, a letter (see Appendix 1) was sent to each of 28 sub-councils of CCPIT to ask for its co-operation in carrying out the survey. In particular, each sub-council was asked to provide a database of local manufacturing enterprises and to deliver the questionnaire on behalf of the researcher. After six weeks, replies had been obtained from 19 of the CCPIT sub-councils, and nine of these agreed to co-operate as requested. These were the sub-councils of Hubei, Jiangsu, Sichuan, Shandong, Hebei, Shan'xi, Liaoning, Shanghai and Shenzhen. Together, these sub-councils covered many

different geographical locations, including central China (Hubei and Sichuan), south-east China (Jiangsu), north-west China (Shan'xi), north-east China (Liaoning), north China (Hebei and Shandong), the south-east coastal area (Shanghai), and one of China's special economic zones (Shenzhen). Due to limitations of finance and time, the researcher accepted that it would be impossible to study the population (enterprises) as a whole. It needs to restrict the research to a sample of the defined population. Therefore, the target population was identified as all enterprises listed in the membership lists of the nine CCPIT sub-councils. The samples were then selected randomly from these nine lists, making sure that they covered "different sectors, types and sizes"¹.

There are two reasons for choosing these nine CCPIT sub-councils. Firstly, CCPIT has a close link with enterprises from different industries, types and sizes. Therefore, it has the advantage to deliver and collect questionnaires for the research. Several of the CCPIT sub-council has communication barrier or some of sub-councils are chargeable for the questionnaire delivery. Owing to the lack of communications and cost constraints, it was impossible to include all of the CCPIT sub-councils in this research. Secondly, the researcher has a working relationship with these nine CCPIT sub-councils. Hence, the researcher will be able to get help from them based on this relationship. This is necessary for successful research, especially for social science research in China.

On completion of the data collection process, the questionnaires, together with covering letters (see Appendix 2), were distributed to the nine CCPIT sub-councils, which then added their own covering letter by way of explanation. The questionnaires and letters were then addressed to the managing directors or marketing directors in the sampled enterprises. The sub-councils helped with the distribution of the questionnaires to 820 enterprises located in 15 cities in seven

¹ As the largest trade promotion organisation in China, CCPIT has a close link with the enterprises from different sector, type and size. It have played the intermediary function of chamber of commerce, and using multiple service means to serve Chinese enterprises for their international market expansion, participation in international competition and cooperations (see www.ccpit.org.net).

provinces. A follow-up letter was posted eight weeks later to those enterprises which had not replied.

Table 4-1 shows the geographical locations of the delivered questionnaires. It can be seen that 80% of the questionnaires were delivered to coastal regions, including Jiangsu Province, Shandong Province, Shanghai City and Shenzhen City. A total of 71% were sent to locations in the south-east coastal region, including Jiangsu and Shanghai. There is no doubt that the coastal areas have benefited most from economic reform (through the "open-door" policy), and the CCPIT and enterprises in those areas accepted the marketing concept earlier than enterprises located in the inland regions.

Table 4-1 Location of Delivered Questionnaires

Location	Date of Delivery (1997)	Number of Questionnaires Delivered	% of population
Hubei Province	April	42	N/A
Jiangsu Province	June	298	4.3% (6,879)
Sichuan Province	May	36	N/A
Hebei Province	April	92	N/A
Shandong Province	July	152	N/A
Liaoning Province	November 1996	33	N/A
Shan'xi Province	November 1996	22	N/A
Shanghai	April	105	3% (3,500)
Shenzhen	May	40	N/A
Total		820	

4.2.4 RESPONSE RATE

Low response rates are a substantial problem in survey research. The responses obtained from only a small portion of the sample may not represent the full sample (Fowler, 1984; Dawson and Dickinson, 1988). Low response rates have

a direct effect on the overall research quality and result. Therefore, in this research, many efforts were made to stimulate a response from enterprises. First, CCPIT sub-councils were chosen to deliver the questionnaire. This was helpful in “giving face” (giving respect) to these enterprises. As the sampling lists came from CCPIT sub-councils, the listed enterprises had a direct relationship with CCPIT sub-councils. Thus, it was difficult for them to refuse to participate. Secondly, a number of collecting persons, who were from the CCPIT sub-councils or otherwise had personal connections with the enterprises, met potential respondents to collect the completed questionnaires. Thirdly, the questionnaire was designed to be “user-friendly”, i.e. it did not include jargon and it gave clear instructions for answering the questions. Fourthly, the respondents were offered their own copy of the research results. In the end, out of 820 questionnaires that were despatched, 440 responses were received, equivalent to a 54% response rate. This is higher than the 35% response rate in previous mail surveys of Chinese enterprises conducted by Liu (1991).

Table 4-2 Useable Questionnaires from Different Geographical Areas

Location	Usable	% of Total Distributed
		in Regions
Hubei Province	10	23.8
Jiangsu Province	124	41.6
Sichuan Province	8	22.2
Hebei Province	8	8.7
Shandong Province	41	30
Liaoning Province	9	27
Shan'xi Province	6	27
Shanghai	39	37
Shenzhen	15	37.5
Total	260	32

4.3 RESEARCH BIASES

The research process is subject to many sources of bias. Chisnall (2001: 74) explains that the difference between the expected value and the population value is called the bias or “systematic error”. It is difficult to establish the value of the population parameter in actual practice, and so it may not be possible to assess biases. There are biases in the sample selection process, e.g. in the way that sampling units are selected from a sampling frame. Bias also arises through non-response, either because some sampling units cannot be traced, or because, when contacted, they refuse to co-operate in the survey. In this research there are two possible biases: regional bias and non-response bias.

4.3.1 REGIONAL BIAS

In the sample, there is a clear bias towards the south-east coastal areas (see Figure 4-2). This is almost certainly because this area is more open and advanced than other areas due to the impact of the economic reform process. Another reason is that the research used CCPIT sub-councils as survey co-operators. The sub-councils located in the south-east coastal areas have also been influenced by economic reform. China began its economic reform experiments with the designation of four special economic zones and 14 open cities, all located in coastal areas. The direct foreign investments made in these regions have far outstripped those directed to comparable inland regions (Deng and Dart, 1999). These investments have not only brought essential capital but have led to an infusion of marketing. Thus, CCPIT sub-councils and enterprises in the coastal areas expressed a particular interest in participating in the research.



4.3.2 NON-RESPONSE BIAS

Since the questionnaires were not distributed anonymously, all of the non-respondents were identified. However, in all cases they were willing to answer a few questions on the telephone to the CCPIT sub-councils. The most often cited reason for not completing the questionnaire was lack of time. The second most prevalent reason was that the enterprise policy or regulation did not allow firms to participate in any type of surveys for reasons of confidentiality. A few people also thought that they did not have the necessary knowledge to answer the questions.

Differences in non-response rates by region and type of enterprise may lead to bias. This can then make it more difficult to assess the variation between different regions and types of firm in the formulation of marketing behaviour. Armstrong and Overton (1977) suggest that, in order to ensure that the respondent sample is not biased in this way, responding and non-responding firms, and early and late respondents, need to be compared. Therefore, follow-up telephone interviews or face-to-face interviews were conducted with 380 non-respondents to gauge the non-response bias between October and December 1997.

Through these telephone interviews, non-respondents enterprises were motivated and encouraged to participate in the study by answering a two-page questionnaire. This questionnaire consisted of 20 questions (the first four questions in each part of the main questionnaire). A total of 48 returns were obtained in this way. A *t*-test was used to assess the statistical significance of the sample means between the main survey results and the follow-up interview results. No statistically significant differences were found for any of the variables used in the study at a 5% significance level. Thus, it would seem acceptable to state that the evidence of the lack of non-response bias though limited, does enhance the possibility of generalising the results to the larger population.

4.4 Univariate statistics

Univariate statistics refers to data analysis in which there is only one variable to be studied (Walsh, 1990: 14) as opposed to the simultaneous analysis of two variables (bivariate analysis) or more than two variables (multivariate analysis). The *student's t*-test is the prime univariate method employed in this research.

4.4.1 HYPOTHESIS TESTING PROCEDURES

Different statistical techniques provide information on one or more of the key elements needed for testing a hypothesis. These key elements express a relationship's existence, strength or direction (Dometrius, 1992: 199). The common reason is that researchers want to test the validity of some hypotheses. Hypothesis testing has been used to explore the relationships between variables/factors in this study.

A hypothesis is an assumption made by a researcher about a population parameter (Levin 1984: 412). Typically, there are two kinds of hypotheses in a test. The null hypothesis (denoted as H_0) is a statement that no difference exists between the parameter until evidence demonstrates otherwise. The research (or alternative) hypothesis (denoted as A_1) is a statement that the researcher will test through the research. The research hypothesis and null hypothesis are exact opposites (Dometrius, 1992: 199).

The research hypothesis usually begins with setting up the null hypothesis, constructing the sampling distribution of the particular statistic on the assumption that H_0 is true, collecting some data, comparing the sample statistics to that distribution, and rejecting or retaining A_1 depending upon a probability factor. A brief summary of the hypothesis testing procedure is as follows. More detailed discussion of hypothesis testing can be found in Dometrius (1992: 199-216) and Hinton (1995: 33-43).

1. A hypothesis of no difference (null hypothesis) and a research hypothesis are formulated.
2. A test statistic, such as the *Student's t*-test or *Chi-square* test, is chosen to evaluate the null hypothesis.
3. For the sample, the test statistic is calculated.
4. If the null hypothesis is true, the probability of obtaining a test value at least as extreme as the one observed is determined.
5. While statistical significance tests evaluate the probability that the null hypothesis is true for the population, the probability never attains absolute certainty, i.e. clear proof that the null hypothesis has to be false. As Dometrius (1992: 206) explains, a general rule is that by convention, social scientists usually use 0.05 as their decision criterion for significance. If the probability of the null hypothesis being true is 0.05 or less, we should reject it and accept the research hypothesis. If the probability level is above 0.05, we need to consider the evidence too weak to reject the null hypothesis as an explanation for the research findings. In a *Chi-square* test, if the observed significance level is small (less than 0.05), the hypothesis where the two group means are equal is rejected.

In this research, hypothesis testing follows the aforementioned procedures (see Chapter 7).

4.4.2 STUDENT'S T-TEST

The *Student's t*-test is used to test the hypothesis that two population means are equal. To do so, the following statistic is calculated (Kanji, 1993: 29):

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{S_1^2}{N_1} + \frac{S_2^2}{N_2}}}$$

where \bar{X}_1 and \bar{X}_2 are the sample means of groups 1 and 2. S_1^2 , S_2^2 are the variances, and N_1 , N_2 are the sample size.

Based on the sampling distribution of the above statistic, it is possible to calculate the probability that a difference at least as large as the one observed will occur if the two population means (\bar{X}_1 and \bar{X}_2) are equal. This probability is called the observed significance level. If the observed significance level is small enough (usually less than 0.05 or 0.01), the hypothesis that the population means are equal is rejected.

Another statistic based on the t distribution, and known as the pooled-variance Student's t -test, is based on the assumption that the population variances in the two groups are equal. It is obtained by using a pooled estimation of the common variance. The statistic is the same as that in the previous equation except that the individual group variances are replaced by a pooled estimate, S_p^2 . The statistic is (Kanji, 1993: 28):

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{S_p^2}{N_1} + \frac{S_p^2}{N_2}}}$$

where \bar{X}_2 is the mean of the second group. The pooled variance is a weighted average of the individual variances and is calculated as:

$$S_p^2 = \frac{(N_1 - 1)S_1^2 + (N_2 - 1)S_2^2}{N_1 + N_2 - 2}$$

To determine if the two population variances are equal, Levene's test (Norusis 1993: 255) can be used. This computes the absolute difference from its group mean and then performs a one-way analysis of variance on these differences for each case. If the observed significance level for this test is small, the hypothesis that the population variances are equal is rejected and the separate-variance *Student's t*-test for means should be used. Otherwise, the pooled-variance *Student's t*-test should be used.

4.5 BIVARIATE STATISTICS

Bivariate statistics refers to the analysis of two variables with the aim of studying the relationship between them. The main bivariate statistics used in this research are the Pearson correlation coefficient (Healey, 1993: 380-409) and the *Chi-square* test (Walsh, 1990: 165-187).

4.5.1 PEARSON'S CORRELATION COEFFICIENT (PEARSON *r*)

Correlation analysis is a widely used method for determining whether, and to what extent, there is a linear relationship between two interval or ratio variables. One commonly adopted correlation measure is the Pearson correlation coefficient, which is an index of the strength and direction of the association and ranges from -1 to $+1$. The Pearson correlation coefficient is denoted by r and defined as (Norusis, 1993: 292):

$$r = \frac{\sum_{i=1}^N (x_i - \bar{x})(y_i - \bar{y})}{(N-1)S_x S_y}$$

Where N is the number of cases and S_x and S_y are the standard deviations of the two variables. The absolute value of r indicates the strength of the linear relationship between the variables X and Y . The correlation coefficient r has a number of properties (Lindeman, *et al.*, 1980: 38).

The value of r is zero when there is no linear relationship between X and Y . The possible values of r lie between -1.00 and $+1.00$. The values r equals to -1.00 and r equals to $+1.00$ occur when there is a perfect linear relationship between X and Y . As r is a ratio of the sum of the square to its maximum value, it may be interpreted as the proportion of the total Y variance or may be explained by the linear relationship between X and Y .

The Pearson correlation provides succinct assessments of the closeness of a relationship among pairs of variables. Its widespread use in the field of social sciences has meant that the results of such correlation tests have become easy to recognise and interpret (Bryman and Cramer, 1997: 172). However, a common mistake in interpreting the correlation coefficient is to assume that correlation implies causation (Norusis, 1993: 294). This interpretation is not always true. It may be that Y and X are strongly correlated because they are both associated with a third variable. Under these circumstances, X alone does not necessarily result in the increase or decrease of Y .

4.5.2 CROSS-TABULATION

Cross-tabulation (or contingency table analysis) is one of the simplest and most frequently used methods of demonstrating the presence or absence of a relationship between two variables (Bryman and Cramer, 1997:160). It also illustrates any differences by listing the distribution of the dependent variable separately for the independent variable (Dometrius, 1992: 285). The cross-tabulation of the two variables is presented in a table, which is often referred to as a contingency table.

In this research, 25 factors that represent four groups of variables (marketing department, marketing activities, marketing competitiveness and government control) are extracted from factor analysis. Using 25 factors in each of the four groups as entry variables for cluster analysis, the 260 cases are grouped into two clusters respectively. Given the two distinct groups of enterprises in four parts

under investigation, cross-tabulation enables the researcher to explore the relations between these groups. Combined with the *Chi-square* test, cross-tabulation also offered a way of testing the independence of the groups and interpreting the research propositions.

4.5.3 CHI-SQUARE TEST

The hypothesis that two variables from a cross-tabulation are independent of each other is often of interest to researchers. Wonnacott (1990: 549) states that the *Chi-square* test provides a simple test based on the difference between observed and expected frequencies. The *Chi-square* test is also often used to test the hypothesis that the row and column variables are independent. It is a very popular form of hypothesis testing.

According to Weiss and Hassett (1991: 563), there are two assumptions associated with the use of the *Chi-square* test:

1. All expected frequencies are at least 1.
2. No more than 20% of the expected frequencies are less than 5.

The *Chi-square* test is calculated by comparing the observed frequencies in each cell of a contingency table with those that occur in the case where there is no relationship between the two variables. The formula for the *Chi-square* test is (Dometrius, 1992: 277):

$$X^2 = \sum \frac{(f_e - f_o)^2}{f_e}$$

Where X^2 = symbol for the *Chi-square* test

\sum = summation across all cells in table

f_e = expected frequency of cell

f_o = observed frequency of cell

The value of the *Chi-square* test depends on the number of rows and columns in the table being examined. The degrees of freedom, which can be viewed as the number of cells of a table that can be arbitrarily filled when the row and column totals are fixed, must be known. The degrees of freedom (df) of the *Chi-square* test are determined by the formula (Dometrius, 1992: 278):

$$Df = (r - 1) \times (c - 1)$$

where *r* is the number of rows and *c* is the number of columns.

In the *Chi-square* test, X^2 is compared to the critical values of the theoretical *Chi-square* distribution to produce estimation of how likely (or unlikely) this calculated value is if the two variables are in fact independent. The important step is for the researcher to decide what significance level can be accepted. This means that the researcher must decide what is an acceptable risk in order to avoid the null hypothesis being incorrectly rejected. Therefore, the calculated *Chi-square* value must be related to a significance level. If the observed significance level of the test is small enough (usually less than 0.05 or 0.01), the hypothesis that two variables are independent of each other is rejected (Healey, 1993: 258-260) and the alternative is accepted.

Although it is a simple and flexible analytical technique, the *Chi-square* test has its limitations. First, the combination of a contingency table and the *Chi-square* is most likely to occur when either both variables are nominal or when one is nominal and the other is ordinal. When both variables are ordinal or interval, other approaches to the elucidation of relationships, such as correlation, are employed. When one variable is nominal and the other is interval, the latter variable will need to be “collapsed” into ordinal groupings (i.e. = 5, 5-10, 10-20, 20-30 etc.) in order to allow a contingency table and its associated *Chi-square* value to be provided (Bryman and Cramer, 1997:171). For example, such a situation could be the relationship between marketing activities and

enterprise age. The *Chi-square* test uses the nominal and ordinal variables in this research.

Secondly, as Roscoe (1969: 203) points out, sample size is important for the quality of approximation and power of the test. It is recommended that the *Chi-square* test should only be used where at least 80% of the cells in the table have expected frequencies equal to 5 or more. In this research, the *Chi-square* tests satisfy these criteria and are thus suitable for use (see Chapter 7).

4.6 MULTIVARIATE STATISTICS

Multivariate statistics refers to all statistical methods that simultaneously analyse multiple parameters on each individual or object under investigation. It includes factor analysis, cluster analysis and multiple discriminant analysis. Hair *et al.* (1998) state that the purpose of multivariate analysis is to measure, explain and predict the degree of relationships between or among varieties. Many multivariate techniques are extensions of univariate and bivariate analysis.

4.6.1 FACTOR ANALYSIS

In the field of the social sciences, factor analysis is a widely used multivariate statistical technique that is associated with the identification of structure within a set of observed variables. It assumes that the observed variables are linear combinations of some underlying (hypothetical or unobservable) factors. Some of these factors are assumed to be common to two or more variables, and some are assumed to be unique to each variable (Kim and Mueller, 1978a: 8). Its use is appropriate when studying interrelationships among variables in an effort to find a new set of variables, fewer in number than the original variables. It also expresses the commonly used variables among the original ones (Stewart, 1981: 51).

Stewart (1981) provides details of three general functions that may be served by factor analysis:

1. The number of variables for further research can be minimised while the amount of information in the analysis is maximized. The original set of variables can be reduced to a small set, which accounts for most of the variance of the initial set.
2. Factor analysis can be used to search data for qualitative and quantitative distinctions. It is particularly useful when the quantity of data is too large to comprehend.
3. If a domain is hypothesised to have certain qualitative and quantitative distinctions, then factor analysis can test this hypothesis. Thus, if a researcher has developed an *a priori* hypothesis about the number of dimensions or factors underlying a set of data, this hypothesis can be subjected to a statistical test.

There are two purposes of factor analysis: data reduction and substantive interpretation (or identification dimensions). The first purpose emphasises the need to summarise the important information in a set of observed variables through a new and smaller set of variables. These common variables are identified among the original ones. The second purpose concerns the identification of the constructs or dimensions that underlie the observed variables. Factor analysis is used in this research for both purposes, thus reducing the variables (marketing department, marketing activities, competitiveness and government control) into smaller overall dimensions. These factors are manageable and interpretable as well as containing most of the original information.

There are four steps researchers usually employ in obtaining basic factor analysis information: (1) determining the appropriateness of factor analysis; (2)

determining the number of factors necessary to represent the data and the method for calculating them; (3) rotating and transforming the factors to make them more interpretable; and (4) computing the score of each factor for each case (Norusis, 1993: 50). Several issues need special attention when using factor analysis. They include: decisions on the cutting point of factor loading, the determination of factor number, and the naming of factors. These will also be dealt with in the following sections.

4.6.1.1 DETERMINING THE SUITABILITY OF FACTOR ANALYSIS

There are several very useful methods for determining whether a factor analysis should be applied to a set of data. Some are relatively simple. One of the simplest procedures for determining the appropriateness of a matrix for factoring is the examination of the correlation matrix. Armstrong and Soelberg (1968) and Shaycroft (1970) show that an ostensibly acceptable factor structure can be obtained through the application of factor analysis to a correlation matrix based on random normal deviations. If the correlation coefficients are small throughout the matrix, factoring may be inappropriate. Factor analysis is concerned with the homogeneity of variables. A pattern of low correlations indicates a heterogeneous set of variables (Stewart, 1981: 57).

A widely used method to test the appropriateness is Bartlett's test of sphericity (1950, 1951). The hypothesis being tested involves a correlation matrix that comes from a population of independent variables. Rejection of the hypothesis is an indication that the data are appropriate for factor analysis.

Another way to test the appropriateness of a matrix for factoring is a Kaiser-Meyer-Olkin measure of sampling adequacy, MSA (Kaiser 1974). The MSA may be the best of the methods currently available. It is a summarised measure of how small partial correlations are related to the simple correlations. A measure can be obtained for the correlation matrix as a whole. It is computed as given (Stewart, 1981:57):

$$MSA = \frac{\sum_{j \neq k} r_{jk}^2}{\sum_{j \neq k} r_{jk}^2 + \sum_{j \neq k} q_{jk}^2}$$

where r_{jk} is the simple correlation coefficient between the variables j and k , and q_{jk} is the partial correlation coefficient between the variables j and k . If the sum of the squared partial correlation coefficients among all pairs of variables is small when compared to the sum of the squared correlation coefficients, the MSA measure is close to 1. Small values for the simple and the partial correlation coefficient are large means that the correlation between pairs of variables cannot be explained by the other variables. As a result, factor analysis may not be a suitable method (Lin, 1996: 49).

The MSA provides a measure of the extent to which the variables belong together and are thus appropriate for factor analysis. Kaiser and Rice (1974) give the calibration of MSA for reference as shown in Table 4-3:

Table 4-3 Calibration of MSA

<i>Calibration of MSA</i>	<i>Suitability for Factor Analysis</i>
In the 0.90s	Marvellous
In the 0.80s	Meritorious
In the 0.70s	Middling
In the 0.60s	Mediocre
In the 0.50s	Miserable
Below 0.50	Unacceptable

In this research, the calibration of MSA was checked before further exploration of the questionnaire data. The MSA for this research in terms of factor analysis (marketing department, marketing activity, competitiveness and government

control), with all variables included, is more than 0.70, which is categorised as “meritorious”. Thus, factor analysis can proceed satisfactorily.

4.6.1.2 EXTRACTING FACTORS

After determining the appropriateness of factor analysis, the next step is the extraction of factors. There are several methods which can be adopted for extracting factors, such as principal component analysis, common factor analysis and least squares approach. Principal component analysis and common factor analysis are the most widely used methods.

Principal components analysis is the easiest way to illustrate characteristics and underlying logic within the bivariate context (Kim and Mueller, 1978a: 12-26). As Johnson and Wichern state (1992: 356), a principal component analysis is concerned with explaining the variance-covariance structure through a few linear combinations of the original variables. Its general objectives are (1) data reduction, and (2) interpretation. They have frequently served as intermediate steps in much larger investigations. Therefore, principal component analysis was chosen in this research to reduce the number of variables to be used in later analysis.

The objective of principal component analysis is to transform a set of interrelated variables into a set of unrelated linear combinations of these variables. The set of linear combinations is chosen so that each of the linear combinations (factors or components) accounts for a decreasing proportion of the variance in the original variables. This is subjected to the condition that each linear combination is uncorrelated to all previous linear combinations. The first component possesses maximum variation. The second component is the next best linear combination of variables that accounts for the largest amount of the variance remaining in the data set after the effect of the first component is removed. The computer continues in this manner until all the variance in the

data is accounted for (Walsh, 1990: 332). All components are uncorrelated with one another.

As a general rule, the final set of factors should explain at least a specified amount of variance. It is common to consider a solution that accounts for 60% of the total variance and in some instances even less. This is because, if the factors together account for only a small portion of the variance, they cannot be considered useful substitutes for the original measures. However, the information is often less precise in the field of social sciences and no absolute threshold has been adopted for all applications (Hair and Tatham 1998). In this research, the results of factor analysis are that 4, 11, 4 and 6 extracted factors in total account for 56.29%, 63.77%, 64.84% and 58.54% of the variance respectively. These almost match the 60% of the total variance of the original 14, 33, 11 and 20 variables (see Chapter 6.4). They can thus be considered useful substitutes for the original variables in this research.

Apart from the extraction of factors, one important issue is to decide which factor loadings are worth considering when it comes to interpreting the factors. Walsh (1990: 331) explains that factor loadings are the correlations of each variable and the factor. They indicate the strength of the association between each of the variables and the derived factors. Hence, the larger the factor loading, the greater the degree of association between the variable and the factor. As a rule of thumb, Hair *et al.* (1998: 111) conclude that the accurate criteria include factor loadings greater than ± 0.30 and consider meeting the minimal level. Loadings of ± 0.40 are considered more important, and if the loadings are ± 0.50 or greater, they are considered very significant. The significance of the factor loadings depends on sample sizes. Table 4-4 contains the sample sizes necessary for each factor loadings value to be considered significant. In this study, 0.50 is used as the lower limit of factor loading.

Table 4-4 Sample Size Needed for Significance

Factor Loading	Sample Size Needed for Significance
0.30	350
0.35	250
0.40	200
0.45	150
0.50	120
0.55	100
0.60	85
0.65	70
0.70	60
0.75	50

Source: Computations made with SOLO Power Analysis, BMDP Statistical Software, Inc., 1993.

Another important issue concerns the determination of the number of factors (Churchill, 1983: 971). Several criteria have been suggested to decide the number of factors to be extracted. "The most commonly used technique is the roots criterion. The rationale for the roots criterion is that any individual factor should account for the variance of at least a single variable if it is to be retained for interpretation. Each variable contributes a value of 1 to the total eigenvalue. Thus, eigenvalues greater than 1 are considered significant. All factors with roots of less than 1 are considered insignificant and are disregarded" (Hair *et al.*, 1998: 103). However, this technique is not without criticism. When a large numbers of variables, for example more than 40, are involved, the criterion seems particularly inaccurate (Stewart, 1981: 58, Tabachnick and Fidell, 1989: 635, Hair *et al.*, 1998: 104).

A popular alternative approach to determine the number of factors is the scree test criterion (Child, 1990: 38). This method employs a curve of the eigenvalues (vertical axis) versus the factor number (horizontal axis). The shape of the resulting curve is used to evaluate the cut-off point. Since the eigenvalues are placed in order from largest to smallest, the typical shape of a scree plot consists of two parts: rapidly downward sloping in the first part with an exponential shape, followed by a second part which is almost equivalent to a horizontal line. This latter part is viewed as the random variation and is referred to as the scree,

since it resembles a scree of rock debris at the foot of a mountain. The correct number of factors corresponds to the eigenvalue number which is located at the immediate left of the beginning of the scree and is called the “elbow” (Jobson, 1992: 395).

Most researchers in the field recommend a combination of approaches for determining the number of factors to extract (Cattell, 1952; Gorsuch, 1974). The use of the roots criterion and the scree test appears to provide an effective means of determining the number of factors. In this research 4, 11, 4 and 6 factors were extracted respectively (see Section 6.4), based on the eigenvalue criterion.

4.6.1.3 ROTATION FACTORS

Initial extracted factors are obtained from unrotated factor solutions that achieve the objective of data reduction. In most instances, the unrotated factor solutions will not provide information that offers the most adequate interpretation of the variables under examination (Hair *et al.*, 1998: 106).

However, it is possible to find new factors, which are called the rotated factors or factor rotation, whose loadings are easier to interpret. According to Everitt and Dunn (1991: 253), this procedure allows new axes to be chosen so that the positions of the points can be described as simply as possible. The term rotation means exactly what it implies. Specifically, the reference axes of the factors are turned about the origin until the desired position has been reached.

There are many different types of rotation possible. The most common are known as varimax, quartimax, equimax and oblimin (Kachigan, 1991: 248). The varimax rotation means that the factors remain uncorrelated throughout the rotation process. The oblimin rotation allows factors to be correlated with one another (Zeller and Carmines, 1991: 44). It can also provide several theoretically meaningful factors or constructs (Hair *et al.*, 1998: 106). No specific rules have been developed to guide the researcher in selecting rotation techniques. The

choice should be made on the basis of the particular research needs. However, “if the ultimate goal of the factor analysis is to obtain several theoretically meaningful factors or constructs, an oblique solution is appropriate” (Hair *et al.*, 1998: 110). In this research, factor analysis is used to identify the underlying constructs of marketing department variables, marketing activities variables, competitiveness variables and government control variables respectively. Therefore, oblique rotation was chosen for the analysis in this research. The method for oblique rotation available in the SPSS factor analysis procedure is called oblimin (Norusis, 1994: 71).

Another major task in using factor analysis is the naming of factors. Researchers usually try to assign some meaning to the factor by assigning it to a name or a label. However, variables do not always form linear composites which are easy or even logical to describe. Thus, a researcher may sometimes find it difficult to name the factors extracted (Crawford and Lomas, 1980: 420). In this research, the researcher was fortunate as the naming of the 25 factors did not present such difficulties.

4.6.2 CLUSTER ANALYSIS

Cluster analysis is a way of sorting items into a small number of homogeneous groups. It refers to a wide variety of techniques used to group entities into homogeneous subgroups on the basis of their similarities. Other names given to the process is: numerical taxonomy, pattern analysis, and typing (Lorr, 1983: 1).

Cluster is used in this study for two reasons. First, it is employed to subdivide the original sample frames into groups of similar enterprises; and secondly, to test propositions relating to hypotheses.

In many instances, a researcher uses a single variable to identify a group or a category to which a respondent belongs. However, when respondents are compared on independent attribute dimensions, there is no single way to

categorise people or other entities. People who are alike with respect to one set of attributes are not necessarily more alike on other attributes than people in general. People may be alike in political attitude but very different in food preference, body type, and personality style. Thus the notion of similarity has meaning only with respect to a specified set of attributes (Lorr, 1983: 12 – 13).

In marketing, the most common application is to cluster customers into segments (Wind, 1978a). This method has also been used to group similar products (Srivastava *et al.*, 1981) in test market selection (Green *et al.*, 1967) and to identify companies pursuing similar strategies (Doyle *et al.*, 1989). Cluster analysis identifies different groups (or clusters) of respondents in such a way that the respondents of any one cluster are similar to one another. Conversely, different clusters are as dissimilar as possible from the respondents in the other clusters. Cluster analysis procedures search through the data and identify respondents who have given identical or at least similar answers to a certain combination of questions, which are chosen as cluster variables before the analysis starts. These respondents are clustered together. The cluster analysis procedures then search through the data, looking for a second set of respondents who have given similar answers to the same combination of questions. This second set of respondents are all similar to one another, but they are also different from the respondents in the first cluster. By proceeding in this manner, cluster analysis can identify a third cluster of respondents who are different from the first two clusters. The procedures can be continued until all of the different clusters have been identified.

4.6.2.1 CHOICE OF CLUSTER VARIABLES

The first step in a cluster analysis is the choice of variables which will serve as the basis for cluster formation. This is one of the most important steps in the process. According to Mercer (1992: 89), the choice of meaningful variables is vital for cluster analysis. If important variables are excluded, poor or misleading findings may result. As Aldenderfer and Blashfield (1984: 20) state, “ideally

variables should be chosen within the context of an explicitly stated theory that is used to support the classification". In practice, Everitt (1980: 48) notes that often "the choice reflects the researcher's judgement of relevance for the purpose of the classification". The initial choice of variables determines the characteristics that can be used to identify subgroups.

In this research, the total of 25 factors identified in the previous factor analysis are divided into eight groups. These groups relate to the marketing department, marketing activities, marketing competitiveness and government control parts associated with the marketing behaviour of the surveyed Chinese enterprises. Factors in each part are then used as entry variables for successive stages of cluster analysis (see Section 7.2).

4.6.2.2 MEASURING DISTANCES

The second step in cluster analysis is to determine the method for measuring the distance between two cases, i.e. the closeness or similarity of two cases. A comprehensive review of all similarity measures can be found in Sokal and Sneath (1963), Anderberg (1973) and Everitt (1980).

There are three types of measures available (Anderberg, 1973: 27):

1. A continuous variable has an uncountable infinite range set. Typically such a variable may assume any value in an interval.
2. A discrete variable has a finite, or at most countable, infinite range set.
3. A binary variable is a discrete variable, which may take on only two values.

As a continuous variable was used in this research, the Euclidean distance measured was chosen for measuring distances between the cases. Euclidean

distance measured is the square root of the sum of the squared differences divided by all of the variables. It is the most commonly used distance measure and is also the only similarity measure which can be applied confidently when using Ward's method of cluster analysis (Anderberg, 1973). It is defined as (Everitt, 1980):

$$d_{ij} = \sqrt{\sum_{k=1} (x_{ik} - x_{jk})^2}$$

where

d_{ij} is the distance between i and j

x_{ik} is the value of the k_{th} variable for the n_{i1} object

x_{jk} is the value of the n_{j2} variable for the k_{th} object.

There are two main reasons for using this approach. First, it is easy to understand; secondly, it allows the measurement of distance in any number of dimensions (Saunders, 1980: 424).

4.6.2.3 COMBINING CLUSTERS

The commonly used methods of combining clusters fall into two general categories: non-hierarchical and hierarchical (Afifi and Clark, 1990: 440).

There are two kinds of non-hierarchical procedures. The primary technique involves iterative partitioning of entities into multiple clusters. The secondary technique is to form clusters one at a time and without iteration for a better assignment.

Hierarchical procedures can be classed as agglomerative or divisive. The agglomerative technique starts with all individual cases as separate clusters, and at each stage the two clusters that are closest together are combined. Finally, all cases are combined into one large cluster. The divisive technique operates in the opposite direction. It begins with the entire set and subdivides it into two and

continues to subdivide each cluster into finer subsets (Lorr, 1983: 20). The most widely used form of cluster analysis is hierarchical. The resulting output of these procedures can be illustrated with a tree diagram called a dendrogram, which identifies the clusters being combined and values of the distances at each step. It shows the “hierarchy of similarities among all pairs of objects” (Romesburg, 1984: 3). From this dendrogram, the researcher can determine the number of clusters to be analyzed. The dendrogram produced by SPSS does not plot actual distances but rescales them into numbers between 0 and 25. Thus, the ratio of the distances between steps is preserved, but the scale displayed at the top of the figure does not correspond to actual distance values (Norusis, 1994: 91-93). Agglomerative hierarchical methods are relatively easy to understand. The main criticism however is that “when an agglomerative algorithm has joined two individuals they cannot subsequently be separated” (Everitt, 1993: 55). So any objects poorly assigned at an early stage in the process cannot be corrected. Another problem associated with these techniques is that of deciding on the correct number of clusters. Often in cluster analysis there are no hard and fast rules, although alternatives have been suggested.

To decide which cases of clusters should be combined at each step, several methods can be used. The basic operation of all such methods is similar. It is based on a matrix of either distances or similarities between pairs of cases. Differences between methods are the different ways of defining distances between clusters at successive steps. In general, the methods are classified into three types namely the linkage method, the centroid method and the minimum-variance method. (Lorr, 1983: 84)

The linkage method includes single linkage, complete linkage and average linkage. Lin (1996: 60) explains: “in single linkage, the distance between two clusters is taken to be the distance between their two closest points. In complete linkage, the distance is measured between their two furthest points. As for average linkage, the distance is defined as the average of the distances between all pairs of cases in which one member of the pair is from each of the clusters”.

The centroid method was originally proposed by Sokal and Michener (1958) and efficiently programmed by King (1967). The distance between clusters is defined as the distance between the cluster centroids (Lorr, 1983: 89). A characteristic of the centroid method and its variants is the similarity value associated with the merger of the most similar clusters that may rise and fall from stage to stage (Anderberg, 1973: 141).

The minimum-variance method is based on the premise that the most accurate information is available when each entity constitutes a group. Consequently, as the number of clusters is systematically reduced from k , $k-1$, $k-2$... 1 , the grouping of increasingly dissimilar entities yields less precise information (Ward, 1963; Ward and Hook, 1963; Lorr, 1983: 90). The criterion that reflects the levels of desirability regarding the various partitions or groupings is called the objective function (Duran and Odell, 1974: 2). Each reduction in groups is achieved by considering all possible pairings and selecting the pairing for which the objective function value is smallest (Lorr, 1983: 90).

Ward's approach is a frequently used minimum variance method for combining clusters in marketing applications. Like other techniques, it starts with each case as a separate cluster and finishes with one single cluster containing all cases. For each case, the squared Euclidean distance to the cluster means is calculated. These distances are summed for all of the cases. At each stage in the analysis, every possible combination of clusters is considered and the two clusters whose fusion results in the minimum increase for "information losses" are merged (Ward 1963). "Information loss" is defined by Ward in terms of an error sum-of-squares criterion, ESS. The ESS is computed as follows (Everitt, 1993: 65-66):

$$ESS = \sum_{i=1}^n (x_i - \bar{x})^2$$

Research has shown that the best measure of similarity to use with Ward's method is the squared Euclidean distance measure (Anderberg, 1973).

4.6.2.4 CHOICE OF CLUSTERING TECHNIQUE

The various studies by Punj and Stewart (1983: 138-139) compare a variety of clustering procedures on artificially generated data. They provide a comprehensive review of the applications of clustering methodology to marketing problems, and use both theoretical and empirical findings to suggest which clustering methods may be most suitable for a specific research task. Everitt (1993: 142) states that no single method can be judged to be the best in all circumstances. In many applications it might be reasonable to apply a number of clustering methods, comparing the results of those methods when applied to the same data sets. However, Punj and Stewart (1983:138) suggest that if the underlying characteristics of these data sets are known, the degree to which each cluster method produces results consistent with these known characteristics can be assessed. For example, if a data set consists of a known mixture of groups or subpopulations, the efficacy of a cluster solution can be evaluated by its success in discriminating among these groups/subpopulations. Punj and Stewart (1983: 138) show that Ward's method outperforms most other methods. Therefore, it is selected for the present research for the following reasons:

1. It is a versatile technique that allows clustering to be performed on a variety of variables (Ward, 1963).
2. It appears to out-perform the average linkage method.
3. It has proved to be effective in similar applications (Doyle *et al.*, 1986).

4.6.2.5 DETERMINING THE NUMBER OF CLUSTERS

A substantial practical problem in performing cluster analysis is that the researcher will have to estimate the number of clusters in the data. The literature suggests a variety of methods of determining the number of clusters, which may be helpful in particular situations. Boyed *et al.* (1989: 629) show that if four different clusters are formed, it is difficult for the researcher to know if four is the proper number of clusters compared to other sizes. Unfortunately, no standard objective procedure exists for the determination of cluster numbers. This may make it difficult to make a choice. The distances between clusters at successive steps may serve as a guide. Large changes are taken into account to indicate a particular number of clusters (Everitt, 1993: 73). The cutoff point is when the successive differences in distances between steps make a sudden jump (Afifi and Clark, 1996: 395). The underlying situation may also suggest a natural number of clusters. Usually, the dendrogram of cluster analysis is able to give a clear picture of the cutoff point. Hence, by looking at the dendrogram, this analysis can be carried out.

In this research the dendrogram is used to decide the cluster number in each of the four cluster analyses performed. Each of the four dendrograms shows a sudden jump or a large difference in the level between three groups and two groups (see Appendix 5). Therefore two clusters are chosen for each of the analyses. These clusters are labelled as “strong/weak marketing department”, “strong/weak marketing activity”, “strong/weak marketing competitiveness” and “strong/weak control”. A more detailed discussion of the cluster results can be found in Section 7.2.

4.6.2.6 INTERPRETING THE CLUSTER SOLUTION AND PROFILING THE CLUSTERS

This stage of the analysis involves an examination of the variables used to develop the clusters. This allows the researcher to give a label to each cluster, which accurately describes the underlying structure of that cluster.

The interpretation of the cluster solution is the logical step of profiling. This stage involves a description of the characteristics of each cluster in order to explain any differences between clusters. A straightforward and simple approach is to compare the clusters with respect to their means. The clusters can be subjected to discriminant analysis (Dillon and Goldstein, 1984: 202).

Discriminant analysis is appropriate to analyse a large data set. In this research, it is used to examine the means of each variable across clusters and establish the significant differences among the variables in the clusters.

4.6.2.7 VALIDATING THE CLUSTER SOLUTIONS

The subjective natures of cluster analysis make validation very important, because it will develop clusters into real groups that actually exist within the data. Punj and Stewart (1983: 145) point out that even after careful analysis of a data set and the determination of a final cluster solution, the researcher still has no assurance that a meaningful and useful set of clusters has resulted. Therefore, it is important to validate the clustering results once the solution has been obtained.

Numerous authors have recommended various methods of validating cluster results. A popular method is to perform discriminant analysis, in which discriminant functions are used to predict group membership to check the adequacy of classification for cases in the same sample through cross-validation (Tabachnick and Fidell, 1989: 508).

One of the more frequently used methods involves dividing the sample in half and carrying out clustering on each half (Everitt, 1974: 66). Membership assignment in the partitioned samples should be similar to that in the entire sample, given that the clusters are stable. Descriptive statistics of the two sets of clusters are compared to determine the degree to which similar clusters have been identified. Green *et al.* (1988: 594) also suggests that significance tests can be performed on variables in order to create clusters.

Of the aforementioned methods, discriminant analysis, split-half and significance tests are used in this research to validate the cluster results. They all produce very encouraging results (see Section 7.2.3), indicating that the data gathered in this research are very clearly structured (Everitt, 1974:66).

4.6.3 MULTIPLE DISCRIMINANT ANALYSIS

Multiple discriminant analysis is a statistical technique which allows the study of differences between two or more groups with respect to several independent variables. It also provides a way of classifying cases into previously defined groups, making it possible to be both a kind of “profile analysis and an analytical predictive technique” (Hair *et al.*, 1987: 79).

4.6.3.1 ASSUMPTIONS UNDERLYING DISCRIMINANT ANALYSIS

The key requirements for discriminant analysis are that two or more mutually exclusive existing groups are presumed to differ on a number of independent variables (measured on the interval scale). The technique assumes that the sample being analysed is drawn from a normally distributed population.

Lachenbruch (1975) notes that an analysis is not seriously affected if this assumption is violated. In addition it is assumed that the covariance matrices of the two groups are equal, thus allowing for the computation of significance test and the probabilities of group membership.

4.6.3.2 OBJECTIVES OF DISCRIMINANT ANALYSIS

Multiple discriminant analysis is considered to be an appropriate statistical technique for this study because of its ability to:

- determine whether statistically significant differences exist between the profiles of two *a priori* defined groups;
- classify cases into groups based on their scores on certain variables;
- identify which independent variables account for the most differences between the groups.

(Dillon and Goldstein, 1984: 363-369; Shaw, 1992)

The objective of discriminant analysis is to weigh and linearly combine the discriminating variables so as to maximise the group variance. This results in a single discriminant score for each case (Dillon and Goldstein, 1984: 360). The mean of all the cases in each group is then calculated to give two centroids. By comparing the group centroids, it can be seen how far apart the groups are, based on the function.

4.6.3.3 THE VALIDITY OF THE DERIVED FUNCTION

A good discriminant function is one which maximises between-group differences and minimises within-group differences. Klecka (1980) suggests a number of ways of assessing the substantive utility of the discriminant function.

Eigenvalue – a measure of the relative importance of the function that considers the total variance in the discriminating variables.

Canonical Correlation – a measure of association between the discriminant function and the variables defining group membership.

Wilks' lambda – an inverse measure of group differences over several variables. It is the proportion of total variance in the discriminant scores not explained by the differences between groups. It is less useful than the first two measures, but it can be converted into a test of significance.

Test of Significance – achieved by transforming Wilks' lambda into the Chi-square statistic, SPSS^x automatically computes the exact significance level of the discriminant function.

A function is a good discriminator if it has a high eigenvalue and canonical correlation but a low Wilks' lambda. It is generally accepted that a function is a good discriminator if the statistical significance is 0.05 or better. However, the test of significance of the function does not give an indication of the efficacy with which the independent variables discriminate between the two groups (Morrison, 1969). It does not give an indication of the predictive accuracy of the function. The construction of a classification (confusion) matrix enables further assessment of the discriminating power of the function.

Prior to the classification stage it is necessary to develop the criterion against each company's discriminant score. The individual company's scores can then be compared with the cutting criterion score to determine the group into which it should be classified. This enables actual group membership to be compared with predicted group membership. Hence, the resultant calculation of the percentage of companies can be correctly classified. In this case, the two groups are of unequal sizes, so the optimum cutting score is calculated using a weighted average of the group centroids (Klecka, 1980).

The question of the predictive accuracy of the discriminant function is crucial. If the observed percentage of cases correctly classified is significantly larger than the expected percentage, the coefficients in the function can be interpreted in order to determine the variables that are the best discriminators. Therefore, it is necessary to determine the percentage of cases that could be correctly classified

by chance. Two groups of equal size would return a percentage of 50% if the cases are correctly classified. For two groups of unequal size, there are two alternative methods available. Should the researcher wish to maximise the percentage of cases correctly classified, it is appropriate to use the maximum chance criterion as given:

$$C_{\max} = \max (p, 1 - p)$$

where

p = proportion of cases in group A

$1 - p$ = proportion of cases in group B

The larger of the two proportions is then taken to be the figure against which the observed percentage of cases correctly classified is assessed. Morrison (1969) pointed out that it is usual to classify some of the cases into the smaller group, so he suggests that the proportional chance criterion is a more appropriated method:

$$C_{\text{proportional}} = p^2 + (1 - p)^2$$

where

p = proportion of cases in group A

$1 - p$ = proportion of cases in group B

Although the two criteria provide a useful measure for comparing the percentage of cases correctly classified Frank *et al.* (1965) warn against a potential bias in the predictive accuracy of the discriminant function. They note that an upward bias in the predictive accuracy is likely to occur in instances where the cases that are used to derive the function are the same as the cases being classified. Hair *et al.* (1987: 90) recommend: "Classification accuracy should be at least 25% greater than that achieved by chance". The only real way of trying to limit the

bias in the predictive accuracy of the discriminant function is to validate the analysis (see Section 4.6.3.5).

If the discriminant function is statistically significant and the predictive accuracy is acceptable, then the function can be interpreted.

4.6.3.4 INTERPRETATION OF THE DISCRIMINANT FUNCTION

The interpretation phase of the analysis involves two stages. First the discriminant function is examined to assess the relative importance of each independent variable in discriminating between the groups. Secondly, the group means of the discriminating variables are examined in order to profile the differences between the groups.

By using a step-wise analysis procedure, the relative importance of individual variables can be assessed. Variables that are not making a significant contribution to the discriminant function are eliminated from the analysis.

In assessing the contribution of individual variables to the discriminating power of the function, it is common to consider the size of the standardised discriminant coefficients. Variables with larger coefficients contribute more to the discriminating power of the function than variables with smaller values. The sign of the coefficient simply shows whether individual variables are making a positive or negative contribution to the function.

Perreault *et. al.* (1979) point out that this approach can be misleading because, when two variables are highly correlated, their contribution to the discriminant function is shared. As a result, their standardised coefficients may be smaller if only one of the variables is used. Alternatively, one variable may take all the “weight”, leaving the other with a very low coefficient. To overcome this limitation, Morrison (1969) recommends that if two variables are highly correlated (i.e. $r = 0.95$), then only one of them should be included in the analysis.

Given the potential for misinterpretation from such an approach, Perreault *et al* (1979) recommend the use of discriminant loadings. These determine the relative importance of individual variables with respect to the overall function. Discriminant loadings or structure coefficients are simple bivariate correlations that are unaffected by relationships with other variables. As a result, Klecka (1980) concludes that structure coefficients are more meaningful than standardised coefficients in the interpretation of the derived discriminant functions. This research will, therefore, consider the structure coefficients when interpreting the discriminant analyses.

Once the independent variables which best discriminate between the groups have been identified, the characteristics of the groups can then be profiled. This phase of the analysis compares the means of the two groups across those variables, which are also significant discriminators. The key differences between the two sets of companies can be identified and profiled.

4.6.3.5 VALIDATION OF DISCRIMINANT ANALYSIS

There is bias in the results of discriminant analysis where the cases are used to derive the function and those in the same classification. Therefore, it is necessary to validate the findings of the analysis (Frank, Massey and Morrison, 1965: 250; Morrison, 1969: 257).

The most common validation method is the split-sample approach discussed by Crask and Perreault (1977). However with small sample sizes, such an approach is impractical because, by splitting an already small sample, the discriminant function would be rendered less reliable. An alternative approach is suggested by Lachenbruch and Mickey (1968). Known as the U-Method, this adopts a sample re-use procedure. The discriminant function is derived by omitting one of the sample companies. The function is then used to classify all the companies. By repeating this procedure for all companies, the number of

misclassifications can be calculated. As Lachenbruch (1975: 32) points out, “This gives an almost unbiased estimate of the actual expected error rate”.

Another validation method is the confusion matrix (sometimes called classification matrix or prediction matrix). The confusion matrix (see Table 4-5) can compare the group membership generated from discriminant analysis with the cluster results. “Created by crosstabulating actual group membership with predicted group membership, this matrix consists of members on the diagonal representing correct classifications and off-diagonal numbers representing incorrect classifications” (Hair, *et. al*, 1998: 241). Correctly classified cases appear on the diagonal of the table as the predicted and actual groups remain the same. For example, the $n_{11} + n_{12}$ in group 1, n_{11} was predicted correctly to be a member of group 1, while n_{22} was assigned incorrectly to group 2. Similarly, $n_{21} + n_{11}$ of group 2 cases was identified correctly, and n_{21} was misclassified. The overall percentage of cases classified correctly is calculated by the following formula:

$$\frac{n_{11} + n_{22}}{n_{11} + n_{12} + n_{21} + n_{22}}$$

The confusion matrix is used in this research, as the correct classification rates of the four clusters are 95%, 84.2%, 92.6% and 93.8% (see Section 7.2.2).

Table 4-5 Confusion Matrix

Actual Group (from cluster analysis)	Number of Cases	Predicted Group (from discriminant analysis)	
		1	2
1	$n_{11} + n_{12}$	n_{11}	n_{12}
2	$n_{21} + n_{22}$	n_{21}	n_{22}

4.7 SUMMARY

Previous studies of management activities in Chinese enterprises have adopted either a qualitative approach (Tang, 1997) or a quantitative approach (Liu, 1991, Byrd, 1991). This chapter presents the methodology employed in the present research. The first part (Sections 4.2 and 4.3) describes the methodological steps of the research, and the second part (Sections 4.4 to 4.6) reviews the statistical techniques that are employed to analyse the research data.

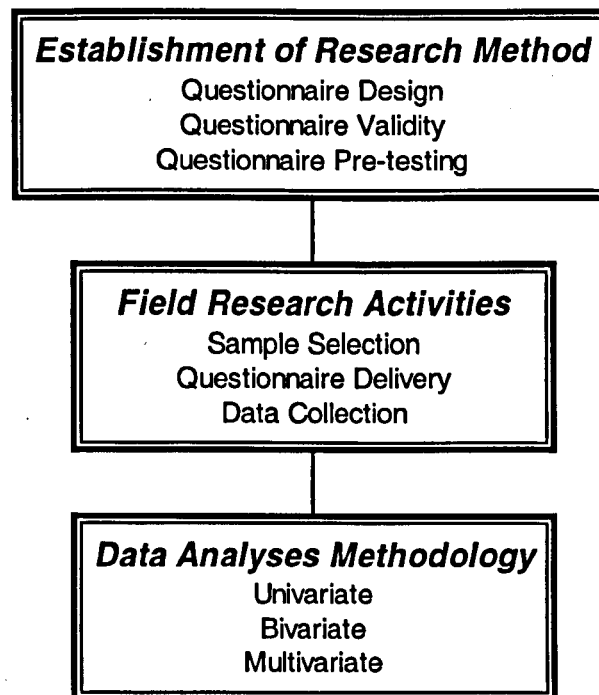


Figure 4-3 The Research Methodology

Figure 4-3 summarises the research procedures in a series of three inter-related phases: the establishment of the research method, the field research activities, and the data analysis methodology. To collect effective quantitative data, a survey method was adopted. Important issues concerning the reliability of the data have been explained in this chapter. They include: the design of a semi-structured questionnaire, its validation and pre-testing, and measures taken to increase the response rate. Field research activities were subsequently

conducted, with questionnaires being delivered to the specified seven provinces and two cities in China.

This chapter has explained that different statistical techniques were employed to deal with different research questions and types of variables. To analyse the questionnaire data, a detailed review of the techniques employed was carried out to illustrate the proper way of proceeding. Hypothesis-testing procedures were also reviewed, and three types of statistical analysis (univariate, bivariate and multivariate) were explained. The univariate and bivariate techniques include the *Student's t*-test, *Pearson's* correlation coefficient cross-tabulation, and the *Chi-square* test. The multivariate statistics consist of factor analysis, cluster analysis and discriminant analysis. These three techniques are together used to analyse the questionnaire data (see Chapters 5, 6 and 7).

5. GENERAL FINDINGS

- 5.1 *Introduction*
- 5.2 *Chinese Enterprises: Sample Characteristics and Background*
- 5.3 *The Function of the Enterprises Marketing Department*
- 5.4 *Marketing Activities*
- 5.5 *Competition and Competitiveness*
- 5.6 *Government Control*
- 5.7 *Summary*

5.1 INTRODUCTION

This chapter presents an analysis of the data provided by responses to the questionnaire. A quantitative analysis method is used. This is based on the frequency of responses to the questions and corresponding cross-tabulations of the responses with respect to the product category, ownership and performance variables. The general findings are presented in a tabular form. The sample is presented as a whole and also by product and/or ownership when there are significant differences between them.

Differences in marketing behaviour may exist among Chinese enterprises with different characteristics in terms of ownership, size and industry. The aims of this chapter are, first, to examine the general responses, and then to discuss these responses in terms of significant associations with six factors: marketing activities, marketing department, competitiveness, government control, enterprise ownership and marketing orientation. As a result, a number of key issues are highlighted: the enterprise's understanding and adoption of the marketing concept, the role of marketing the department and its relationship with other functional departments, changes in the marketing department after reform, marketing orientation, the marketing mix, the gathering of information about competitors, the nature and limits of marketing competition in China, government authorities' control of marketing by enterprises, and the attitude of enterprises towards control. Hypotheses 5, 6 and 7 will also be examined by the frequency tables of response (see Sections 5.3 and 5.4).

Due to its descriptive nature, the discussion in this chapter will not be very detailed. The central issues of the research will be analysed in greater depth in the following chapters.

5.2 CHINESE ENTERPRISES: SAMPLE CHARACTERISTICS AND BACKGROUND

The research methodology employed in this study was a postal survey to marketing managers and managing directors. This section provides an overview of the responses in the returned semi-structured questionnaire, which was used to collect information about the marketing department, marketing activities, marketing competitiveness and government control of 820 participating enterprises. The questionnaires were sent to a number of CCPIT sub-councils with a self-explanatory cover letter in September 1996. The sub-councils then distributed the questionnaires to the participating enterprises in November 1996. They were returned gradually between December 1996 and November 1997.

5.2.1 THE STRUCTURE OF THE QUESTIONNAIRE

The questionnaire (see Appendix 3) consists of five sections (see Table 5-1). The first part presents the basic characteristics and background of the sample firms. The second part explores the function of the enterprises' marketing departments, and their understanding and adoption of the marketing concept. The organisational structure of the marketing department and the changes in enterprise marketing organisation since reform are also presented. The third part examines Chinese enterprises' marketing activities, including their marketing research and their planning practices. Fourthly, marketing competition and enterprises' competitiveness is examined. The fifth and last part aims to identify the degree to which enterprises are controlled by government, and the attitude of enterprises towards this control.

Table 5-1 The Structure of the Questionnaire

Questionnaire		Which includes
Part 1 Enterprise Background	Q1 - Q10	<ul style="list-style-type: none"> • The profiles of the respondents
Part 2 The Marketing Department in the Enterprise	Q1 – Q18	<ul style="list-style-type: none"> • The understanding and adoption of the marketing concept (Q1-Q4) • The marketing department's structure (Q5-Q9) • The relationship with other functions (Q10-Q12) • The role of the marketing department (Q13-Q15) • The changes in the marketing department after reform (Q16-Q18)
Part 3 Marketing Practices	Q1 – Q24	<ul style="list-style-type: none"> • Marketing orientation (Q1-Q3) • Promotion methods (Q4-Q9) • Price decisions (Q10-Q14) • Marketing research and planning practice (Q15-Q22) • Future objectives of the enterprise (Q23-Q24)
Part 4 Marketing Competition	Q1 – Q11	<ul style="list-style-type: none"> • Enterprises' competitiveness (Q1-Q3) • Competition information (Q4-Q7) • Competition strategies (Q8) • The nature and limits of marketing competition in China (Q9-Q11)
Part 5 Government Control	Q1 – Q10	<ul style="list-style-type: none"> • Government authorities' control of enterprise marketing (Q1- Q9) • Attitudes of enterprises towards the control (Q10)

5.2.2 SAMPLE CHARACTERISTICS

A total of 440 questionnaires were received within 11 months of the initial mailing. Non-response analysis showed no systematic differences in the demographic characteristics of enterprises that had chosen not to participate. Typical reasons offered for non-responses were “the contents of the questionnaire are confidential to the enterprise” or “no time”. The positive respondents formed the basis of the sample for quantitative analysis. The characteristics of the respondents will be briefly evaluated. In the following

tables, any fluctuations in the sample sizes are the results of either missing values or "don't know" answers.

Table 5-2 shows the profile of questionnaires collected from the seven Chinese provinces and two cities. After a letter (see Appendix 2) was sent out, 440 of the total questionnaires were returned back to the senders (a number of CCPIT sub-councils). A representative of the researcher in China compiled the returned questionnaires and sent them to the UK. Out of these 440 questionnaires, 21 were completely/totally empty, 159 were partly completed and 260 were usable. "Usable" means that the questionnaire was at least 95% completed. The "usable" responses represented a 32% response rate. This is higher than the normal response rate in industrial mail surveys of 10%, as quoted by Hart (1987). Telephone interviews to the 380 enterprises, which did not return the questionnaire, found that they thought answers to the questionnaire would divulge commercial secrets or that the respondents simply did not have the time. A total of 78 firms did not receive the questionnaire and 25 firms claimed that they had returned the questionnaire (but the researcher had not received them).

Table 5-2 Profiles of Returned Questionnaires

Location	Date of Delivery (1997)	No. of Questionnaires Delivered	Returned (%)	Usable (%)
Hubei Province	April	42	23 (54.8)	10 (20.0)
Jiangsu Province	June	298	211 (70.8)	172 (57.7)
Sichuan Province	May	36	14 (38.8)	8 (22.2)
Hebei Province	April	92	25 (27.2)	8 (8.7)
Shandong Province	July	152	59 (38.8)	32 (21.1)
Liaoning Province	November/96	33	13 (39.4)	2 (6.1)
Shan'xi Province	November/96	22	7 (31.8)	2 (9.1)
Shanghai	April	105	66 (62.9)	19 (18.1)
Shenzhen	May	40	22 (55.0)	9 (22.5)
Total		820	440 (53.7)	260 (31.7)

5.2.3 THE BACKGROUND OF CHINESE ENTERPRISES

In the questionnaire, Questions 1 to 10 are about the profiles of the respondents. Table 5-3 shows the number of employees in the responding enterprises. The sample has a very similar distribution in all categories. In the usable response sample, 43.1% of the enterprises have fewer than 500 employees and nearly 40% have approximately 500 up to 2000 employees. These figures indicate that most of these firms are small and medium enterprises (SMEs¹). Table 5-4 indicates that more than half of the enterprises had annual turnovers higher than 1 million RMB in 1996. Approximately 38% of the samples had annual turnovers of more than 5 million RMB. This includes 10 enterprises with turnovers of over 1 billion RMB. In all, 63.1% of all enterprises are "profit" enterprises.

Table 5-3 Profiles Number of Employees

Q1.6 Number of Employees	Overall Frequency %	Usable Frequency (%)
Less than 100	41 (11.2)	34 (13.1)
100-249	47 (12.8)	39 (15.0)
250-499	50 (13.7)	39 (15.0)
500-999	46 (12.6)	44 (16.9)
1000-2000	59 (16.1)	57 (21.9)
More than 2000	48 (13.1)	44 (16.9)
No answer	75 (20.5)	3 (1.2)
Total	366 (100.0)	260 (100.0)

Table 5-5 presents the enterprises' age (years of operation). The samples are equally spread in the middle three categories (between 5 and 30 years) as 14.6%, 13.1% and 13.5% respectively, with 20% of the enterprises operating for fewer than 5 years and 27.7% of the enterprises operating for more than 30 years.

¹ The definition of a SMEs in the Chinese context, as described by Kinnell *et al.* (1994), is different in some respects from the definition in the UK. A UK SME is usually defined as employing up to 200–250 people. However, in China the scale of business is larger. According to the definition given by the Institute of Scientific and Technical Information of China, up to 500 employees and fixed assets of up to 10 million Yuan (Approx. £ 0.9 million) constitute a SME.

These figures reflect that there are different age groups of enterprises in the respondents.

Table 5-4 Profiles of Turnover of Enterprise

Q1.7 Enterprises' 1996 turnover ²	Overall Frequency (%)		Usable Frequency (%)	
Under 1million RMB	152	(41.5)	91	(35.0)
1 million to 5 million RMB	94	(25.7)	72	(27.7)
Over 5 million RMB	120	(32.8)	97	(37.3)
Total	366	(100.0)	260	(100.0)

Table 5-5 Profiles Age of Firm (Years of Operation)

Q1.1 Years of Operation	Overall Frequency (%)		Usable Frequency (%)	
Under 5	58	(15.8)	52	(20.0)
5-9	42	(11.5)	38	(14.6)
10-19	39	(10.7)	34	(13.1)
20-29	41	(11.2)	35	(13.5)
30 or more	77	(21.0)	72	(27.7)
No answer	109	(29.8)	29	(11.1)
Total	366	(100.0)	260	(100.0)

Table 5-6 Profiles of Enterprise Ownership

Q1.2.1 Enterprise Ownership*	Overall Frequency (%)		Completed Frequency (%)	
State-owned	134	(36.5)	123	(47.3)
Collectives	72	(19.5)	53	(20.4)
Township-Village	63	(17.1)	27	(10.4)
Joint venture	48	(13.1)	41	(15.8)
Private	18	(4.8)	12	(4.6)
Joint stock system	11	(3.0)	4	(1.5)
No answer	22	(6.0)	0	(0.0)
Total	366	(100.0)	260	(100.0)

* According to Chinese Monthly Statistics, 12, 1997.

Table 5-6 shows that the sample firms cover a broad spread of enterprises across all the ownership categories that currently exist in China. Nearly half of respondents are state-owned enterprises. Second in the list are collectively

² For some respondents, turnover=expected turnover.

owned enterprises, which constitute 20.4% of total respondents. Joint venture, township-village, private and joint stock system enterprises account for 15.8%, 10.4%, 4.6% and 1.5% respectively. In Table 5-7, the product categories of responding enterprises are presented. Consumer goods account for 46.9% of the total respondents, industrial goods for 29.2%, and 23.8% of the respondents belong to the “no answer” or “other” categories.

Table 5-7 Enterprises' Product Categories

Q1.3 Product categories	Frequency	(%)
Consumer durable goods	76	(29.2)
Industrial goods	40	(15.4)
Fast-moving consumer goods	46	(17.7)
Large industrial equipment	36	(13.8)
No answer	62	(23.8)
Total	260	(100.0)

Table 5-8 profiles the customers' geographic location. It shows that 80.8% of the total respondents have customers in China. On the other hand, most respondents focus on domestic markets. There are 32.7% of respondents with either direct or indirect export markets. It should be noted that some enterprises have both domestic and export markets.

Table 5-8 Customers' Geographic Location

Q1.4 Customers' Geographic Location	Overall		Usable	
	Frequency	(%*)	Frequency	(%*)
Domestic market	236	(64.5)	210	(80.8)
Direct export	43	(11.7)	39	(15.0)
Indirect export	68	(18.6)	46	(17.7)
Others	38	(10.4)	15	(5.8)

* Percentages may not add up to 100 due to multiple responses

Q1.8 concerns the link with Western companies. The survey data show that 140 enterprises out of the 260 surveyed have such links. The result of 53.8% indicated many Chinese enterprises have connections with the foreign companies in today's China.

In summary, the overview of respondents has been presented in this section to help draw a basic profile of the sample from the 820 delivered and the 440 returned questionnaires. The response rate is 53.7% (440/820), a relatively high rate for this type of research. This may be attributable to many factors (see Section 4.2.3), such as the clear instructions, the use of CCPIT sub-councils to deliver the questionnaires, and finally personal collecting.

5.3 THE FUNCTION OF THE MARKETING DEPARTMENT

5.3.1 UNDERSTANDING THE MARKETING CONCEPT

During 20 years of economic reform, Western investors contributed greatly to the economic growth and market transformation in China. When the surveyed enterprises were asked the question “where did you learn the marketing concept and strategy”, nearly 10% of respondents stated that the marketing concept came directly from their experience of working in western companies, while 41.5% stated that they knew the marketing concept from books and magazines and 30.8% stated that their learning had come from attending training courses (see Table 5-9). These findings indicate that Western investors not only brought Western investment and technology, but also the Western marketing concept, to Chinese enterprises. Chinese academics have popularised the marketing concept through books, magazines and training courses. Marketing has become a popular expression and concept.

Table 5-9 How Enterprises Learn about the Marketing Concept

Q2.2 Where did you learn the marketing concept?	Frequency	%
Books and magazines	108	(41.5)
Working in western company	23	(8.8)
Training course	80	(30.8)
Universities	30	(11.5)

In Table 5-10 there are many answers¹ from the respondents, offering different interpretations of the marketing definition. 46% of the 260 respondents answered the question “what is marketing?” Most of them state that marketing means high quality, low cost and hard selling. It appears that most Chinese managers confuse marketing with selling. This misconception implies that although a market-oriented system has gradually replaced the mandatory planning system in China and marketing has become a popular expression, Chinese enterprises still need time to understand the marketing concept fully and to accept it. The Western marketing concept only began to be employed in China about 20 years ago, when companies were still in the age of sales orientation.

Table 5-10 The Definition of Marketing

Q2.1 What is the definition of marketing?					
1.	Marketing is a process through which the products of enterprise are delivered to customers.				
2.	Marketing means that the enterprises themselves rarely sell their own products in the marketplace.				
3.	Marketing means the measures through which the products of enterprises are promoted to the customers.				
4.	Marketing is an economic activity.				
5.	Marketing means that enterprises provide products of high quality and low cost to satisfying customers and market needs.				
6.	Marketing is the sum total of R&D, sales, advertising and marketing research.				

Table 5-11 Enterprises' Future Objectives

Q3.23 Enterprises' future objectives:	Rank	Frequency	%	Mean score	Std. variation
Increase selling force and turnover	1	106	(40.8)	0.41	0.49
Launch famous brand	2	102	(39.2)	0.39	0.49
Develop new products	3	100	(38.5)	0.38	0.49
Develop new markets	4	99	(38.1)	0.38	0.49
Increase market share	5	96	(36.9)	0.37	0.48
Improve product quality	6	89	(34.2)	0.34	0.48

Note: Percentages may not add up to 100 due to multiple responses.

¹ The answers are translated from Chinese into English.

Tables 5-11 presents the preliminary statistical analysis, including both frequency and mean score values for each enterprise's objectives and their ranking. The analysis of these preliminary statistical values reveals the relative importance of various marketing activities for enterprises. "Increase selling force and turnover", "launch famous brand" and "develop new products" are ranked first, second and third respectively. This suggests that Chinese enterprises are faced with the increasing pressures of marketing competition; or perhaps (and more likely) it may simply reflect the fact that these enterprises have increased their degree of autonomy in making decisions. They now place much more emphasis on personal selling, product performance and brand reputation, but less emphasis on product quality and market share.

The results from Tables 5-10 and 5-11 may reflect the present situation of Chinese enterprises. Since enterprises have rights of production and sales decision, sales activity is seen as the most important activity. The initial reason why enterprises adopt the marketing concept is because they want to stimulate sales. These findings support hypothesis H6 that there is likely to be confusion between the marketing concept and the selling concept in Chinese enterprises.

In response to the question "are the Western marketing concept and strategy suitable for Chinese enterprises", 78.1% of respondents answered "suitable" or "partly suitable". Only 1.2% and 5.0% respectively answered "very suitable" and "not suitable" respectively (see Table 5-12). These figures reflect the fact that most Chinese enterprises prefer to employ Western marketing strategies. This supports hypothesis H7 that the marketing concept, marketing strategies from Western context have to be adopted to China's distinctive characteristics (*guoqing*).

Table 5-12 Is the Western Marketing Concept Suitable for Chinese Enterprises?

Q2.3 Are the Western marketing concept and strategy suitable for Chinese enterprises?	Frequency	%
Very suitable	3	(1.2)
Suitable	57	(21.9)
Moderately suitable	46	(17.7)
Partly suitable	100	(38.5)
Not suitable	13	(5.0)
Don't know	41	(15.8)
Total	260	(100.0)

5.3.2 THE CHANGES IN THE MARKETING DEPARTMENT

As explained in Section 3.2, China's pre-reform economic system was a planned system. Special state-owned enterprises were completely cut off from markets. The production of enterprises had nothing to do with market demand. The raw and processed materials and technical equipment were supplied entirely by the state, and the sales of products were subjected to a state-purchasing plan. Faced with this system, many enterprises had no marketing department. They only had a supply department, which consisted of a purchase section, a materials planning section and a sales section. They dealt with the purchasing and of raw and processed materials and also their internal management, for example attending an ordering conference, signing a purchasing or supply contract with relevant parties, stock management, and distributing goods to the workshop.

Table 5-13 shows that 4.2% of the respondents reported that a marketing department existed before reform. This figure increased to 43.5% after reform. A high proportion (44.6%) of respondents reported that they had extended the sales department. Another 38.8% of respondents had also set up a marketing department after reform. These results show that before and after economic reform changes occurred in enterprises' raw materials purchasing department, product sales department, and marketing department.

Table 5-13 Changes in the Marketing Department before/after Reform

Q2.16 Departments that existed before reform	Frequency	(%)
Sales	157	60.4
Supply	129	49.6
Purchase	55	21.2
Marketing	11	4.2
Q2.17 Departments that existed after reform		
Sales	144	55.4
Supply	108	41.5
Purchase	37	14.2
Marketing	113	43.5
Q2.18 Changes that have taken place in the marketing department since reform		
Set up marketing department	101	38.8
Extended sales department	116	44.6
Raised level of sales department	62	23.8
Others	9	3.5

Note: Percentages may not add up to 100 due to multiple responses.

5.3.3 THE FUNCTIONS OF THE MARKETING DEPARTMENT

Table 5-14 shows the main functions of the marketing departments in the enterprises. These functions cover marketing planning, marketing research, R&D, promotion, sales and after-sales service, physical distribution and public relations. The results indicate that the marketing department plays an important role in the enterprise's operation. Obviously, there are connections between the marketing department and its marketing activities.

Table 5-14 The Main Functions of the Marketing Department

Q2.13 The main functions of the marketing department	Frequency	(%)
Marketing planning	213	(82)
Marketing research	204	(78)
Advertising	177	(68)
R&D	96	(37)
Sales & after-sales service	192	(74)
Physical distribution	134	(52)
Public relations	166	(64)

Table 5-15 shows that 151 enterprises (58.1%) out of the 260 surveyed claimed that their marketing departments had an equal relationship with their sales departments, while 16.9% stated that they had a better relationship, and 7.3% had a worse relationship with the sales department.

Table 5-15 The Relationship between the Marketing and Sales Departments

Q2.10 What relationship does the marketing department have with the sales department	Frequency	(%)
Equal	151	(58.1)
Higher than sales	44	(16.9)
Lower than sales	19	(7.3)
No answer	46	(17.7)
Total	260	(100.0)

Table 5-16 Working Relationship with Other Departments

Q2.12 How closely do other functional departments work with the marketing department?	Very Close	Close	Neutral	Distant	Not at all
Production	38.8	31.5	15.4	3.5	10.8
Purchase and physical distribution	18.8	29.6	24.6	6.2	20.8
Sales	45.4	24.6	10.0	3.8	16.2
Finance	31.2	34.6	18.8	5.0	10.4
Personnel	26.9	36.2	13.5	5.0	18.5
R&D	28.1	34.2	16.9	5.4	15.4

The surveyed firms claimed that the marketing department worked closely with most other departments in their enterprises. Table 5-16 shows particularly encouraging results involving the close co-operation with production departments: 70.3% of respondents claimed to work "very closely" or "closely" with production. Co-operation with the sales departments was very similar (70%). The relationships with other departments in the categories of "very close" and "close" are 48.4%, 65.8%, 63.1% and 62.3% respectively. Although these results show that marketing departments have close relationships with all functional departments, most directors state that the main emphasis is given to

the two ends: production and sales. It seems, therefore, that marketing department has a strong status compared with that of sales and other functions, and has a good relationship with other functions including the sales department.

Table 5-17 The Role of the Marketing Department in Strategic Planning

Q2.15 What role does marketing play in your enterprise's strategic planning?	Frequency	(%)
Minor	30	(11.5)
A limited support role	31	(11.9)
A major role	143	(55.0)
A leading role	46	(17.7)
Don't know	10	(3.8)
Total	260	(100.0)

Table 5-17 shows that 143 marketing departments out of the 260 surveyed play a major role in the enterprise's strategic planning. Another 46 play a leading role, making a total of 72.7%. It indicates that the marketing department plays important role in determining the enterprise strategic plan.

5.4 MARKETING ACTIVITIES

China has converted from a planning economy to a socialist market economy. Chinese enterprises have realised that the marketing concept and marketing orientation, which have been developed in the West since the beginning of the last century (see Chapter 2), are effective tools to improve enterprise performance and profits. This thinking has stimulated Chinese enterprises to learn about the marketing concept with the aim of shifting the firm's orientation from a production orientation to a marketing orientation. This section discusses some attributes and activities that currently occur in Chinese enterprises. These include: marketing orientation, conducted marketing research, the promotion of new products and product pricing practices, marketing planning activities, marketing competition and product distribution channels.

5.4.1 THE ADOPTION OF A MARKETING ORIENTATION

In Q3.2 respondents were asked about the kind of enterprise orientation being formed in their companies. There were three possible choices: “make what we can and sell it to whoever will buy it” (a production orientation); “place a major emphasis on advertising and selling to ensure sales” (a selling orientation); and “place a major emphasis on prior analysis of market needs, adapting our products to meet them if necessary” (a market orientation) (Lai, *et al.*, 1992). Table 5-18 shows that 50.4% of enterprises responded with market orientation as their enterprise orientation. Another 28.8% opted for production orientation. Only 13.8% of the total respondents gave “selling orientation” as the answer.

Table 5-18 Enterprise Orientation

Q3.2 What kind of enterprise orientation is being formed?	Frequency	%
Production orientation	75	(28.8)
Selling orientation	36	(13.8)
Market orientation	131	(50.4)
No answer	18	(6.9)
Total	260	(100.0)

Table 5-19 Enterprise Orientation Distributed by Enterprise Ownership

	No answer (%)	Production orientation (%)	Selling orientation (%)	Market orientation (%)	Total (%)
State-owned	6.5	29.3	13.0	51.2	100.0
Collectives	7.5	26.4	11.3	54.7	100.0
Township-village	7.4	29.6	18.5	44.4	100.0
Joint venture	7.3	34.1	14.6	43.9	100.0
Private	8.3	16.7	16.7	58.3	100.0
Joint stock system	0.0	25.0	25.0	50.0	100.0

Table 5-19 gives the distribution of the three orientations by enterprise ownership. It indicates that the three orientations have similar distributions for all six forms of enterprise ownership. This appears to go against a common assertion that market orientation adoption depended on enterprise ownership – for example, township-village enterprises are more market-oriented than state-

owned enterprises in China. Hypothesis 5 (State-owned enterprises have a weaker marketing orientation than township-village and private enterprises) is therefore not supported.

Table 5-20 The Criteria Used to Determine an Enterprise's Attitude toward Marketing Orientation

Q3.3 To what extent do you agree with the following statement?						
	Definitely agree		Neutral		Definitely disagree	
	Frequency	%	Frequency	%	Frequency	%
Objectives are driven by customer satisfaction	184	70.8	42	16.2	34	13.1
Rapid response to competitive market	125	48.1	100	38.5	35	13.5
Marketing manager regularly visits customer	86	33.1	69	26.5	105	40.4
Competitive strategies based on customer need	166	63.8	71	27.3	22	8.4
Customer satisfaction is measured	168	64.6	57	21.9	33	12.7
Attention is given to after-sales service	175	67.3	55	21.2	28	10.8
Top management discuss competitors	153	58.9	72	27.7	35	13.5
Business functions are integrated to serve marketing	96	36.9	104	40.0	60	23.1
Salespeople share information on competitor's strategy	56	21.5	107	41.2	96	37.1
Inter-functional communication of customer information	136	52.3	64	24.6	55	21.2

Note: Percentages may not add up to 100 due to multiple responses.

Ten criteria are commonly used to determine an enterprise's attitude toward marketing orientation, and respondents were asked to tick the criteria that applied to them. The responses were then divided into three groups: responses of "strongly agree" (1) and "agree" (2) were grouped together as "definitely agree". Responses "disagree" (4) and "strongly disagree" (5) were categorised as "definitely disagree". The response "neutral" (3) was placed in its own category. The findings are summarised in Table 5-20. From a customer orientation point of view, 70.8%, 63.8%, 64.6% and 67.3% of total respondents definitely agreed

with the statement “enterprise objectives are driven by customer satisfaction”, “customer satisfaction is frequently and systematically measured”, “competitive strategies are based on understanding customer needs” and “close attention is given to after-sales service”. 33.1% of the respondents stated that their marketing manager visited customers regularly. Although 58.9% of the top management frequently discussed competitors’ strengths and weaknesses and 48.1% of the respondents considered that their enterprises responded rapidly to competitive market actions, only 21.5% of the respondents considered that salespeople shared information on competitors’ strategies in their enterprises. This seems to support the view that Chinese enterprises prefer both a customer orientation and a competitor orientation.

5.4.2 THE CONDUCT OF MARKETING RESEARCH

Table 5-21 shows that 46 enterprises out of the 260 surveyed are greatly involved in marketing research, 80 conduct a significant amount of marketing research, and 77 conduct only a small amount of marketing research. In total, 78.1% are actively involved in marketing research. Only 13.8% of respondents (Table 5-22) state that they use the services of a marketing research agency. This suggests that four out of five enterprises conduct their own marketing research rather than using the services of an external agency.

Table 5-21 Involvement in Marketing Research

Q 3.15 How much marketing research does you carries out?	Frequency	(%)
A great deal	46	(17.7)
A lot	80	(30.8)
A moderate amount	77	(29.6)
A little	49	(18.8)
None at all	8	(3.1)
Total	260	(100.0)

Table 5-22 Use of Marketing Agencies

Q 3.22 To what degree are the following external support agencies used by the enterprises?							
	Frequency		Sometime		Never		N/A
	F	(%)	F	(%)	F	(%)	
Market research	36	13.8	77	29.6	93	35.8	54
Advertising	80	30.8	91	35.0	52	20.0	37
Direct mail	17	6.5	57	22.0	109	41.9	77
Telesales	33	12.7	46	17.7	110	42.3	71
Corporate design	20	7.7	77	29.6	88	33.8	75
Sales promotion	18	6.9	64	24.7	103	39.6	75

The enterprises tend to conduct marketing research according to their own long-term experience of the market. A large proportion of the enterprises conducts their own research by using their salespersons' feedback as the main or only source of information. A prime reason for this decision is cost: few enterprises can afford other types of research. Furthermore, the salespersons' feedback is a perfectly adequate source of information for most purposes.

Table 5-23 Marketing Research in Relation to Product Categories

Q3-15 To what extent does your enterprise carry out marketing research?					
	Sample Size	High Degree		Low Degree	
		F	%	F	%
Consumer durable goods	76	57	(75.0)	19	(25.0)
Industrial goods	40	22	(55.0)	18	(45.0)
FMCG	46	26	(56.5)	20	(43.5)
LIG	35	24	(68.6)	11	(31.4)
Other	50	28	(56.0)	22	(44.0)
Number of Companies	247	157	(63.6)	90	(36.4)
No answer	13				

Note: FMCG = Fast moving consumer goods; LIG = Large industrial equipment.

Tables 5-23, 5-24 and 5-25 show the degree to which marketing research is carried out according to different product categories, forms of enterprise ownership, and profitability. The responses "a great deal" (1), "a lot" (2) are categorised as "high degree". The responses "a moderate amount" (3), "a little" (4) and "not at all" (5) are grouped as "low degree". "No answer" (6) is treated as a missing value. The research shows that all of the product categories involve

a high degree of marketing research, including 75% of “consumer durable goods” respondents (Table 5-23).

Table 5-24 Marketing Research in Relation to Enterprise Ownership

Q3-15 To what extent does your enterprise carry out marketing research?	Sample Size	High Degree		Low Degree	
		F	%	F	%
State-owned	124	71	(57.3)	53	(42.7)
Collective	53	39	(73.6)	14	(26.4)
Township-village	26	17	(65.4)	9	(34.6)
Joint venture	41	31	(75.6)	10	(24.4)
Private	12	5	(41.7)	7	(58.3)
Joint stock system	4	3	(75.0)	1	(25.0)
Numbers of companies	260	166	(63.8)	94	(36.2)

The joint venture and joint stock companies have the highest percentages (75.6% and 75% respectively) in terms of structure of enterprise ownership. In addition, 73.6% of collective enterprises and 65.4% of township-village enterprises have a high level of marketing research, but the figure for state-owned enterprises is only 57.3%. Only 41.7% of the private enterprises contacted conduct marketing research (Table 5-24). This indicates that private enterprises may not have sufficient research capacity (e.g. experienced research staff and research expenditure).

Table 5-25 Marketing Research in Relation to Profitability

Q3-15 To what extent does your enterprise carry out marketing research?	Sample Size	High Degree		Low Degree	
		F	%	F	%
Profitable	164	115	(70.1)	49	(29.9)
Loss-making	44	20	(45.5)	24	(54.5)
No answer	52				
Numbers of companies	260				

Table 5-25 shows the link between marketing research activity and the profitability of the enterprise. 70.1% of profitable enterprises conduct marketing research. In the loss-making enterprises, there is a slight difference in the method of conducting marketing research. This suggests that marketing research

may play a positive role in enhancing the enterprise's profit. However, an enterprise's profit or loss could be caused by many other factors, for example the competitive environment and the advantages of individual enterprise.

Expenditure on marketing research varies according to the enterprise's size as measured by the turnover rate (see Table 5-26). 56% of the smaller enterprises spend nothing on marketing research. Nearly 70% of these smaller enterprises spend nothing or less than 100,000RMB per annum. One-third of the medium-size enterprises spend nothing on marketing research, and a further 42.5% spend less than 1,000,000RMB. The larger enterprises tend to spend more heavily on marketing research, as we might expect. However, it is perhaps surprising that nearly half of these larger enterprises (with a turnover in excess of 200 million RMB per annum) spend nothing or less than 100,000RMB on marketing research each year.

The degree to which enterprise decision-makers use the results of marketing research is presented in Table 5-27. The data indicate that most enterprises use the results of marketing research to make decisions (42% for "frequently" and 47.3% for "sometimes").

Table 5-26 Marketing Research Expenditure Related to Enterprises' Turnover

Q3.16 Annual Marketing Research Expenditure	Total	Small	Medium	Large
None	101	51 (56%)	27 (37%)	23 (24%)
Less than 100,000RMB	49	11 (12%)	16 (22%)	22 (22.9%)
100,000 to 1,000,000RMB	53	11 (12%)	15 (20.5%)	27 (28.1%)
1,000,001 to 5,000,000RMB	22	6 (6.6%)	10 (13.7%)	6 (6.3%)
Over 5,000,000RMB	23	3 (3.3%)	3 (4.1%)	17 (17.7%)
No answer	12 (4.6%)	9 (3.5%)	2 (0.8%)	1 (0.3%)
Number of enterprises	260	91	73	96

Table 5-27 Decision Makers' Use of the Results of Marketing Research

Q3-6 To what degree are the results of marketing research used by decision makers?	Frequency *	%
1. Frequently	102	(42.0)
2. Sometimes	115	(47.3)
3. Never	26	(10.7)
Total	243	(100.0)

* Total frequency is not equal to 260 owing to 17 missing values.

In summary, given the high level of association between the usage of marketing research and performance, and the current low levels of marketing research expenditure, it seems that many enterprises could significantly improve their performance by making better use of marketing research.

5.4.3 PROMOTION AND PRICING PRACTICES

Table 5-28 shows that the promotion methods used vary across product categories. Consumer marketers are more likely to use advertising. It is surprising to find that 83% of respondents in the production and LIE (large industrial equipment) categories are more likely to use personal selling. The FMCG (fast moving consumer goods) marketers are also more likely to use personal selling. In general, this method seems to be especially popular amongst the enterprises. The enterprises of all product categories are less concerned with sponsorship. The consumer durable goods sector shows a higher usage of sales promotion than other sectors. A high proportion of respondents have used advertising, personal selling and public relations.

In Q3.4, respondents were asked to report the use of promotional methods. The responses are divided into two groups, responses of "a great deal" (1), "a lot" (2) and "a moderate amount" (3) are grouped as "agree". Responses "a little" (4) and "not at all" (5) are categorised as "disagree". The responses of the "agree" group are summarised in Table 5-29. 90% of respondents employ public relations. 58.9% of the respondents employ advertising. This indicates that personal relationships (*guanxi*) are very important in China.

Table 5-28 Promotion Methods Used by Product Category

Q3.4 Promotion methods used by product category	Consumer durable goods	Production goods	FMCG*	LIE**
Advertising	75% (57)	65% (26)	76% (35)	60% (21)
Personal selling	68% (52)	83% (33)	78% (36)	83% (29)
Public relations	72% (55)	55% (22)	72% (33)	63% (22)
Sales promotion	64% (49)	48% (19)	43% (20)	34% (12)
Sponsorship	45% (34)	38% (15)	35% (16)	26% (9)

* Fast-moving consumer goods

** Large industrial equipment

Table 5-29 Use of Promotional Methods

Q3.4 Use of promotional methods	Rank	Frequency (Agree)	%	Mean	Std. Deviation
Public relations	1	235	(90.3)	2.01	1.08
Advertising	2	153	(58.8)	3.33	1.14
Personal selling	3	187	(71.9)	2.35	1.36
Sales promotion	4	198	(76.1)	2.47	1.40
Sponsorship	5	189	(72.7)	2.67	1.47

Table 5-30 shows three major price issues: pricing decision objectives, the determination of the major product's price, and the criteria for setting prices for products. Gaining market share and seeking long-term profit are placed first and second respectively by over two-thirds of the enterprises. 86 enterprises out of the 260 surveyed have their prices set by the top management of the enterprise. 25.8% of the enterprises have prices set by the marketing department. 15% and 27.3% of the enterprises based the price on state and local bureau compulsory and guide plans respectively. This is surprising, as price controls have been steadily removed over the reform period. However, in many cases local and central government have continued to play an active role in enterprise management (Perkins, 1996, Table 3 and 4).

Table 5-30 The Product's Price

Q3.10, 3.11, 3.13	Frequency	%
Major pricing decision objectives:		
1. No loss	57	(21.9)
2. Current profit maximisation	42	(16.2)
3. Gain market share	121	(46.5)
4. Seeking long-term profit	86	(33.1)
5. Reflecting product quality	41	(15.8)
Major product's price is set by:		
1. State price bureau's compulsory plan	26	(10.0)
2. Local price bureau's compulsory plan	14	(5.4)
3. Top management of the enterprise	86	(33.1)
4. Marketing department of the enterprise	67	(25.8)
5. State price bureau's guide plan	31	(11.9)
6. Local price bureau's guide plan	40	(15.4)
7. Production department of the enterprise	33	(12.7)
The criteria for setting prices for products:		
1. State-planned price	34	(13.1)
2. Production cost of the enterprise	153	(58.8)
3. Based on average price of similar product	58	(22.3)
4. According to market condition	110	(42.3)

Note: Percentages do not add up to 100 due to multiple responses.

There are four criteria for setting the prices of products: state-planned price, production cost, price of similar product, and market conditions. The survey results are presented in Table 5-30. Only 13.1% of enterprises claim that they follow state-planned prices. These results confirmed Hay *et al.*'s observation³ that "only a small proportion of firms set their price based on the state price" (Hay, *et al.* 1994: 48). The most interesting feature of these responses is that although in a significant proportion of responses (58.8%) price is based on the production cost, there are another 42.3% of respondents who state that their prices depend on market conditions. 60 out of 260 enterprises set the price according to both production cost and market conditions. This indicates that enterprises must be combined to consider production cost transfer and market acceptability. This result appears to be slightly different from Hay *et al.*'s results (1994), which show that enterprises are able to pass their costs onto consumers without considering market conditions.

³ Hay *et al.* conducted a survey of the behaviour of Chinese manufacturing enterprises in 1988. The questionnaire was distributed to a sample of 400 Chinese enterprises.

5.4.4 MARKETING PLANNING

70.8% of the responding enterprises have a marketing plan, and 63.9% of the sample report that their marketing planning is successful. Table 5-31 shows the main contents that are covered in the marketing plans. 63.1%, 55.4% and 52.3% of the respondents state that their plans including sales volume goals, market share goals, and profit goals respectively.

Table 5-32 presents the methods employed to examine marketing planning. The results indicate that the majority of the enterprises claim to have carried out some type of analysis by marketing planning. Over half of the enterprises have applied financial analysis to the examination of performance in relation to planning objectives. 33.5% and 31.5% of the respondents prefer to employ sales analysis and market share analysis respectively. Only 18.8% and 18.5% of respondents carry out consumer attitude tracking and sales-to-expense analysis respectively.

Table 5-31 Contents of the Marketing Plan

Q3.20 The marketing plan includes:	Frequency	%
Sales volume goals	164	(63.1)
Market share goals	144	(55.4)
Profit goals	136	(52.3)
Target market	79	(30.4)
Advertising	79	(30.4)
Controls	52	(20.0)
Distribution channel	80	(30.8)
Sales force	116	(44.6)
Product line	100	(38.5)
Price	113	(43.5)
After-sales service	108	(41.5)

* Percentages do not add up to 100 due to multiple responses.

Tables 5-31 and 5-32 indicate that most Chinese enterprises emphasise sales targets. Respondents were asked to rank the four main targets for the future objectives of their enterprises. The highest-ranking objective is "increasing sales force and turnover". The objectives of "launching famous brand" and

“developing new products” are ranked second and third respectively (see Table 5-33). During the personal interviews, heavy emphasis was placed on launching a famous brand product for the enterprise in the future. Many respondents felt that for long-term success, the product must be considered as the most important factor.

Table 5-32 The Methods Employed to Examine Marketing Planning

Q 3. 21.The methods employed to evaluate marketing planning	Frequency	%*
Sales analysis	87	(33.5)
Market share analysis	82	(31.5)
Consumer attitude tracking	49	(18.8)
Financial analysis	137	(52.7)
Sales-to-expense ratios	48	(18.5)

* Percentages do not add up to 100 due to multiple responses.

Table 5-33 Four Main Objectives in the Future

Q3.23-24 The four main objectives in the future (in rank order)	1 st		2 nd		3 rd		4 th	
	F	%	F	%	F	%	F	%
Develop new products	38	(14.6)	38	(14.6)	30	(11.5)	15	(5.8)
Increase turnover and sales force	90	(34.6)	43	(16.5)	28	(10.8)	31	(11.9)
Increase market share	28	(10.8)	41	(15.8)	21	(8.1)	30	(11.5)
Improve product quality	16	(6.2)	52	(20.0)	38	(14.7)	13	(5.0)
Launch famous brand	47	(18.1)	26	(10.0)	36	(13.8)	22	(8.5)
Develop new markets	9	(3.5)	19	(7.3)	28	(10.8)	39	(15)

As expected, there are no differences in the main objectives between the product categories (see Table 5-34). The first objective across all categories is “increase sales force and turnover”. Consumer marketers rank “launch famous brand” more highly than do industrial marketers. “Develop new markets” is seen as less important in all categories, and “develop new products” is more important for consumer durable and production goods. FMCG (fast-moving consumer goods) and LIE (large industrial equipment) marketers rank “increase market share” as a secondary objective. It is surprising to observe that “develop new products” is ranked low by FMCG enterprises.

Table 5-34 Main Objectives in the Next Three Years Related to Product Category

Q3.23-24 Objectives (next three years) ranked 1, 2 or 3	Consumer durable goods	Production goods	FMCG	LIE	Others
Develop new products	46.1 (35)	47.5 (19)	32.6 (15)	42.9 (15)	38 (19)
Increase turnover and sales force	59.2 (45)	62.5 (25)	71.7 (33)	60 (21)	60 (30)
Increase market share	38.2 (29)	22.5 (9)	41.3 (19)	45.7 (16)	44 (22)
Improve product quality	38.2 (29)	42.5 (17)	41.3 (19)	60 (21)	32 (16)
Launch famous brand	39.5 (30)	35 (14)	34.8 (16)	45.7 (16)	32 (16)
Develop new markets	25 (19)	25 (10)	21.7 (10)	25.7 (9)	20 (10)

Note: FMCG = Fast moving consumer goods; LIG = Large industrial equipment.

These results indicate that most Chinese enterprises are stilling sales oriented. They place most emphasis on personal selling and brand reputation. The results support H6 that there is likely to be confusion between the marketing concept and the selling concept in Chinese enterprises.

5.5 COMPETITION AND COMPETITIVENESS

The fourth part of the questionnaire is related to enterprises' marketing competitiveness. This part looks at the recent market competition situation and strategies (Q4.1 to Q4.11).

Understanding the competitive environment is the best guarantee of permanent improvements in the performance of the enterprises. Marketing competition is now widely accepted in China. Nobody disagreed that understanding competitors is the real key to developing a winning marketing strategy. However, only half of the respondents state that they have gathered information about competitors. Half of the respondents also state that they are uncertain, i.e. they will probably not or definitely not gather, process, analyse and report

information about competitors (see Table 5-35). The enterprises were asked to state items of competitive intelligence. The results are presented in Table 5-36. Information on pricing is seen by over half the enterprises as crucial. 43.8%, 43.1% and 42.3% of all respondents state that information on promotion strategies, R&D and cost data are needed respectively. The other items of competitive intelligence have 30%, 23.5%, 23.8%, 26.2% and 26.2% response ratios for competitive plan, sales statistics, manufacturing, financing and product styling respectively.

Table 5-35 Information about Competitors

Q4.4 Does your enterprise have systematic methods of gathering, processing, analysis and reporting information about competitors?		
	Frequency	%
Definitely	24	9.2
Probably	109	41.9
Uncertain	99	38.1
Probably not	16	6.2
Definitely not	4	1.5
*Missing value	8	3.1

* "No answer" is entered in missing value.

50% of respondents state that marketing competition is not fair among Chinese enterprises. The reasons for unfair competition are listed in Table 5-37. There are four main reasons that affect marketing competition: the government limits the entry of competitors; the government manipulates the price; there are different tax rates between enterprises; and there is a local government protection policy. Respondents ranked these four reasons with responses of 10.8%, 10%, 15.8% and 22.7% respectively. 75% of respondents thought that establishment of 'no-deal-relations' were important. However, 15% of them thought that it was very important.

Table 5-36 Items of Competitive Intelligence

Q4.5 What types of information does your management want to have about competitors?		
	Frequency	%
Pricing	132	50.8
Competitive plans	78	30.0

Sales statistics	61	23.5
Cost data	110	42.3
Promotion strategy	114	43.8
R & D	112	43.1
Manufacturing	62	23.8
Financing	68	26.2
Product Styling	68	26.2

* Percentages do not add up to 100 due to multiple responses.

Table 5-37 The Reasons for Unfair Competition

Q4.9 Reasons	%
Government bureau limits the entry of competitors	(10.8)
Government manipulates price	(10.0)
Different tax rate between enterprises	(15.8)
Local government protection policy	(22.7)
Others	(3.5)

5.6 GOVERNMENT CONTROL

In the pre-reform period, administrative directives by central, provincial and local government branches controlled Chinese enterprises. Since the reform process started, there have been important changes. Efforts have been made to allow enterprises to operate independently from government. Production planning and the compulsory administrative allocation of outputs and non-factor inputs have lost their importance in mobilising the efforts of enterprises and individuals.

With regard to the questions on control by government, Table 5-38 shows a very low rate of government involvement in the enterprises' performance. For example, only one quarter of the respondents claim to have been subject to control of their price decisions, and only 30% state that there has been control of the tax rate and production licences. Only 6.9%, 7.7% and 8.1% of the respondents state that they have "imposed output limits, controls on raw material and business law" respectively. The results in Table 5-38 support the

findings of Jefferson *et al.* (1999), who state that “all types of enterprise believe that they have a high degree of autonomy over a wide range of decisions”.

Table 5-38 Control by the Government

Q5.3 In what areas does the government control the enterprise's performance?	Frequency	%
Price decision	40	(15.4)
Tax rate	78	(30.0)
Production licence	78	(30.0)
Substituting loan	73	(28.1)
Imposes output limits	18	(6.9)
Controls raw material	20	(7.7)
Business law	21	(8.1)

Table 5-39 Government Control Related to Ownership

Q5.3 How does government control the enterprise's performance?	State-owned (124)	Collectives (53)	Township-village (26)	Joint venture (41)	Private (12)	Joint stock system (4)
Price control	19 (15.3)	7 (13.2)	4 (15.4)	8 (19.5)	0	1
Tax rate control	42 (33.9)	10 (18.9)	11 (42.3)	12 (29.3)	2	0
Production license	36 (29.0)	12 (22.6)	11 (42.3)	13 (31.7)	4	2
Substituting loan	39 (31.5)	17 (32.1)	6 (23.1)	9 (22.0)	0	1
Imposes output limits	14 (11.3)	2 (3.8)	0	1 (2.4)	1	0
Controls raw material	9 (7.3)	3 (5.7)	0	8 (19.5)	0	0
Business law	13 (10.5)	4 (7.5)	2 (7.7)	2 (4.9)	0	0

Table 5-39 shows the extent of government control in relation to enterprise ownership. There are no obvious differences between state-owned enterprises and other types of enterprise ownership for most of the listed items except for the imposition of output limits. However, some directors of large state-owned enterprises mentioned that important business decisions, e.g. merging with another enterprise or becoming a joint venture business with foreign investors,

are subject to the approval of governing authorities and other relevant government departments. The governing authorities still appoint the senior managers for large state-owned enterprises. The township-village enterprises insist that the governing authorities control them in terms of the tax rate and production licence. 19.5% of the respondents from joint venture enterprises state that raw materials are controlled by the government. This is the highest response rate in the item of control raw material.

Table 5-40 shows the sales levels for the enterprises' products before and after reform. Before reform only 26.9% of respondents sold their products in the open marketplace. Most sold their products under the governing authority's control. This situation has changed with economic reform. 82.3% of respondents state that they "sell products in the marketplace". As Lee (1991: 155) points out, since reform supervision has been transferred to the enterprises as a part of their control rights in the areas of production and marketing.

Table 5-40 Methods of Selling Products

Q 5.4 – 5.5 How does the enterprise sell products?	Before reform	After reform
Marketplace	26.9%	82.3%
Central plan	86.2%	17.7%

* Percentages do not add up to 100 due to multiple responses.

Table 5-41 presents the attitudes of enterprises towards government control. 14.2%, 16.5% and 15% of the respondents prefer to increase control in pricing, investment and competition respectively. It is surprising to see such a low level of support for decreased control. These results suggest that many enterprises do not want to face the risk of market competition but still want the security of government control. Interestingly, all the response rates in Table 5-38 are relatively low. However, one quarter of respondents prefer a decrease of price control. This indicates that economic reform has brought not only rights but also responsibility and pressure to enterprises. Chinese enterprises still exhibit complex attitudes toward government control.

Table 5-41 The Attitudes of Enterprises towards Government Control

Q5.10 The attitudes of enterprises towards government control:	Price	Products	Supply	Sales	Investment	Competition
Prefer to increase control	14.2%	6.5%	6.2%	6.5%	16.5%	15.0%
Prefer to decrease control	26.2%	16.2%	13.1%	14.6%	17.3%	13.5%
Prefer to remain unchanged	11.2%	15.0%	14.6%	14.6%	8.5%	7.3%
Have no idea	4.6%	3.8%	4.2%	6.2%	2.7%	3.8%

5.7 SUMMARY

As seen from all the results shown, this chapter presents the general responses and subsequently discusses general findings emerging from the research. The major findings of the survey of enterprises are summarised as follows:

1. Section 5.3 examined the issues concerning the understanding and the adoption of the marketing concept and marketing orientation, and the change of the marketing department. It appears that China's "open door" policy not only brought Western investment to China but also introduced the Western marketing concept. Most responses indicate that this concept is partially suitable for Chinese enterprises. Many enterprises have now set up a marketing department, and "marketing" has become a popular expression. Most managers in China see the marketing concept as a means of promoting the hard selling of high-quality, low-cost products. The results support hypothesis H6 that there is likely to be confusion between the marketing concept and the selling concept in Chinese enterprises and H7 that the marketing concept, marketing strategies from Western context have to be adopted China's distinct features (*guoqing*).

2. In Q3.2, respondents were asked about the kind of enterprise orientation being formed in their enterprises. A puzzling pattern emerged. Half of the enterprises stated that a marketing orientation is their enterprises' preference. More than one quarter of the enterprises stated that they preferred a production orientation. It does appear that these figures may be somewhat exaggerated and that the attitude was skewed towards a marketing orientation. Orientation preferences were slightly different when linked to the distributions of six forms of enterprise ownership (see Section 5.4.1). According to hypothesis H5, there should be distinct differences between enterprises according to their structure of ownership in their responses to the questionnaire. The analysis of the results does not seem to support H5 that State-owned enterprises have a weaker marketing orientation than township-village and private enterprises. This result is not consistent with the finding of Deng and Dart (1999) that "private and collectively owned enterprises display a substantially greater market orientation than is evidenced in the business practices of state owned enterprises".
3. Section 5.3.3 shows the main functions of marketing departments in the enterprises. These functions covered marketing planning, marketing research, R&D, promotion, sales and after-sales service, distribution and public relations. The findings from the analysis indicate that marketing departments play an important role in the enterprises' operation. They are indeed associated with marketing activities.
4. Section 5.4.2 analyses the responses to questions about the enterprise's marketing activities in the area of marketing research. It appears that nearly half of the respondents have been involved in marketing research. Most of them conduct their own marketing research rather than using the services of an agency. (Only 13.8% of respondents employ the services of a marketing research agency.) Industrial marketers make less use of marketing research than do consumer marketers. State-owned enterprises

have a lower rate of marketing research than other types of ownership. Marketing research exhibits a positive role in increasing the enterprise's profit, but the enterprise's profit or loss may be caused by many other factors, e.g. competitive conditions and the specific advantages of the enterprise (according to the responses to Q3.15). Half of the enterprises (including smaller, medium and larger enterprises) spend practically nothing on marketing research. They prefer to conduct marketing research on the basis of their long personal experience of the market or the feedback provided by salespersons.

5. Sections 5.4.3 to 5.4.4 analyse the responses to questions about marketing promotion, pricing and planning. The use of marketing promotion methods varies across the product categories. A relatively high proportion of respondents has used advertising, personal selling and public relations. Consumer marketers are more likely to employ advertising. Advertising proves to be a very useful promotion tool for the marketing effort.

In terms of pricing practices, the majority finding shows that Chinese enterprise combine the productions cost transfers and market acceptability to set a product's price. 15.4% and over one quarter of the respondents rely on state and local government's compulsory plan and guide plan respectively. Therefore, there is much evidence of the role of local government and central government in price setting. This finding confirms Perkins' (1996) view that in many cases, local governments have continued to play an active role in enterprise management.

For marketing planning, nearly three quarters of respondents have a marketing plan, which focuses mainly on sales volume, market share and the profit goals.

6. Marketing competition is widely accepted in China. Due to the government bureau's restrictions on the entry of competitors, the different

tax rates among enterprises and local government protection policy etc.

half of the respondents state that marketing competition among enterprises is not fair. Three-quarters of respondents feel that the establishment of a "no-deal-relationship" is important.

7. The research analyses the issues of government control in Section 5.6. All enterprises state that there is a very low rate of government involvement in the enterprises' performance, i.e. firms have considerable autonomy. The state-owned enterprises are subject to more control by government in relation to output limits. In terms of other aspects, such as prices and the tax rate, there are no significant differences. There have been great changes in enterprises' selling methods since economic reform. Most enterprises indicate that they now sell in the marketplace. At the same time, there is not much support for a further decrease of government control except in relation to prices.

The study shows that Chinese enterprises have become less restricted with economic reform. The government has transferred many decision rights to the enterprise level. The influence of government control on enterprise's marketing activities has been reduced. Consequently, many marketing activities, for example marketing research, marketing planning, promotion, price practice and marketing competition, are now carried out by Chinese enterprises. The marketing department undoubtedly plays an important role in enterprises' marketing activities. However, due to the distinctive characteristics of Chinese history, culture and industry, the marketing concept has only been partially understood by Chinese enterprises. Although Chinese enterprises' attitude is toward marketing orientation, the most of Chinese enterprise still are selling oriented or even production orientation. These results support the finding of Kotler and Levy (1969), Marinov *et al.* (1993) and Akimova (2000) that the adoption of marketing is a gradual process. The survey results show that economic reform has not only changed enterprises' position in the operation process, but has also changed the attitude of enterprises towards marketing

orientation. The findings also reveal that there is no clear association between enterprise orientation and the enterprise' structure of ownership. A further, more detailed examination of the relationships among the marketing department, the enterprise's marketing activities, competitiveness, government control and marketing orientation will be carried out in the following chapters to develop a better understanding of the nature and scope of Chinese enterprises' marketing behaviour.

6 FACTOR ANALYSIS AND DISCUSSION

- 6.1 *Introduction*
- 6.2 *Variables Used*
- 6.3 *Pearson's Correlation Analysis between Some Sets of Variables*
- 6.4 *Factor Analysis*
- 6.5 *Summary*

6.1 INTRODUCTION

Chapter 5 focused on the individual variables and how each was distributed in the data set. It is important to know not only how each is distributed but also the correlations between the variables. These can help the researcher to formulate other possible relations between variables. The overall purpose of this research is to investigate a number of issues related to the application of the marketing concept and marketing behaviour of the Chinese enterprises in the context of the Chinese business environment. In particular, the research focuses on the influence of government control, competitiveness, the marketing department and enterprise's ownership on the enterprises' attitude and behaviour. Factor analysis is a procedure for data simplification that reduces a set of variables to a smaller set of factors by identifying dimensions underlying the data. Therefore, factor analysis is used here to analyse the internal structure of marketing department variables, marketing activities variables, competitiveness variables and government control variables respectively in order to identify the underlying constructs in the research. Due to Pearson correlation analysis is based on the simple idea of measuring a relationship by multiplying the values of the two variables being examined, prior to the factor analysis, the Pearson correlation analysis is conducted to decide whether the factor analysis should be applied and, if so, which variables should be used (Churchill, 1983: 981).

In this chapter, all of the variables used in the factor analysis, are discussed.

Pearson's correlation analysis is employed to look at the relationship between two sets of variables. The results of Pearson's correlation analysis are first presented and then factor analysis (principal component analysis) is employed to summarise the information for a number of observed variables in a new and smaller set of variables.

6.2 THE VARIABLES USED

As explained in Chapter 5, there are five sections in the questionnaire. The first section presents the basic characteristics and background of the sample Chinese firms. The second section explores the function of the enterprises' marketing departments and the understanding and adoption of the marketing concept. The third section examines the enterprises' marketing activities. Fourthly, marketing competition is examined. The fifth section aims to identify the degree to which enterprises are controlled by government.

The enterprises' marketing behaviour is studied in the second, third, fourth and fifth sections. For the ease of carrying out the research, the variables are categorised as follows: 33 variables related to marketing activities, 14 related to the marketing department, 11 related to marketing competitiveness, and 20 related to government control. These are selected in order to employ factor analysis (Table 6-1).

Table 6-1 Descriptions of the Variables Selected for Factor Analysis

Name of Variable	Description
1. Marketing activities	
MKTAPPRO	Marketing approach in the enterprises
MKTOREN1	Customer orientation
MKTOREN2	Competition orientation
MKTOREN3	Inter-functional Co-ordination
MKTOREN4	Competition orientation
MKTOREN5	Customer orientation
MKTOREN6	Customer orientation
MKTOREN7	Competition orientation
MKTOREN8	Inter-functional Co-ordination

MKTOREN9	Competition orientation
MKTOREN0	Interfunctional Co-ordination
ADVEREXP	Expenditure on advertising
PRICEOJ1	Price decision objective – no loss
PRICEOJ2	Price decision objective - current profit maximisation
PRICEOJ3	Price decision objective - gain market share
PRICEOJ4	Price decision objective - long-term profit
PRICEOJ5	Price decision objective – reflect product quality
PRICEEF1	Price promotion - stimulate short-term sales
PRICEEF2	Price promotion - create brand switchers
PRICEEF3	Price promotion – destroy long-term health of brand
PRICEEF4	Non-price promotion - create greater brand loyalty
PRICEEF5	Non-price promotion - have little effect on sales
MKTRECOD	Conducting marketing research
MKTREEXP	Expenditure on marketing research
USEMKTRE	Decision maker use marketing research results
MKTPLAN	Formal marketing planning
SUCCPLAN	Successful marketing plan
AGMKTRES	Using external support agencies - market research
AGMKTADV	Using external support agencies - advertising
AGMKTMAI	Using external support agencies - direct mail
AGMKTTEL	Using external support agencies - telesales
AGMKTDES	Using external support agencies - corporate design
AGMKT COS	Using external support agencies -promotion consultancy
2. Marketing department	
MKTSTATU	Best description of marketing status in enterprise
MKTRESPO	The person who is responsible for the marketing
MKTINFLU	The person who influences the marketing strategy
MKTHEAD	The role of the head of marketing in corporate strategy
RELAMKSA	The relationship between marketing and sales department
RELAO THE	The status between the marketing department and other departments
RELAPROD	The extent of the relationship between marketing and the other department - production
RELAPUPH	The extent of the relationship between marketing and the other department - purchasing and physical distribution
RELASALE	The extent of the relationship between marketing and the other department - sales
RELAFINA	The extent of the relationship between marketing and the other department - finance
RELAPERS	The extent of the relationship between marketing and the other department - personnel
RELAR&D	The extent of the relationship between marketing and the other department - R&D
NPROMKT	New product R&D influenced by marketing department
ROLEMKT	Marketing plays role in strategic planning
3. Marketing competitiveness	
COMPRMKT	What kind of competitive market is there for your major product?
COMEXTEN	The future competition for your major product
METINFOR	The methods for gathering information about competitors
KNOWMKT	Enterprise understands the market's trends

KNOWPRO	Enterprise knows its product market well
KNOWCTOR	Enterprise knows its main competitor well
KNOWPROF	Enterprise knows its customers' profiles well
KNOWCUSN	Enterprise knows its customers' needs well
KNOWCBUS	Enterprise knows its customer business well
FAIRCOMP	The enterprise's marketing competition is fair
NODEALRE	The establishment of no-deal-relations
4. Government control	
GOVINFLU	Government influence
CONPRICE	Price control
CONTAX	Tax rate control
CONLICEN	Production licence
CONLOAN	Substituting loan
CONOUTPU	Imposes output limits
CONRAWM	Raw material control
CONLAWC	Business law control
SELLMKT	Selling product by market
SELLPLAN	Selling product by central plan
PURPRICE	Price control in purchasing
PURQUAN	Quantity control in purchasing
PURSUPPL	Channels control in purchasing
PURREGIO	Supplier region control in purchasing
SALEPRIC	Price control in sales
SALEQUAN	Quantity control in sales
SALEBUY	Sales license in sales
SALEREGIO	Distribution channels control in sales
SALECOMP	Sales control by compulsory plan
PRODCOMP	Production control by compulsory plan

The marketing activities variables concern: the description of the marketing approach, marketing orientation, price decision objective, marketing research, marketing planning, marketing promotion, R&D, sales and after-sales service, and the use of external support agencies. The marketing department variables cover the relationship between the marketing department and other functional departments, marketing management, and the status of marketing. The marketing competitiveness variables include the status of enterprise competition, the gathering of information about competition, and the nature and limits of marketing competition. The government control variables depict comprehensive control, distribution control, production control, law control and financial control.

6.3 PEARSON'S CORRELATION ANALYSIS BETWEEN SETS OF VARIABLES

The aim of the research is to examine the enterprises' marketing behaviour and the factors which affect that behaviour. Correlations are frequently suggestive and can help the researcher to formulate other possible relations between variables.

Therefore, as a preliminary step, Pearson's correlation analysis is conducted to examine the relationships between the pair variables of marketing activities, marketing department, marketing competitiveness and government control respectively. Whole correlation matrix would be more than 100 pages, therefore only parts of the matrix are listed in this sections.

Tables 6-2, 6-3, 6-4 and 6-5 shows that a number of elements in the correlation matrix are relatively high. In the original sets of marketing department, marketing activities, marketing competitiveness and government variables, 14, 33, 11 and 20 variables are found to have relatively high correlation coefficients among one another respectively. According to these values and another judgement (MSA and Bartlett's of Sphericity judgement, which will be explained in the next section), these sets of variables are selected for factor analysis. The correlation matrices of these selected variables are presented in Tables 6-2, 6-3, 6-4 and 6-5. A number of coefficients listed in these tables are very useful if the research is focused on the variables level. However, the research interest here is in marketing behaviour, which is better presented by a group of variables. Therefore, factor analysis is employed to identify the key factors underlying marketing behaviour and to summarise the variables. This will be discussed in the next section.

Table 6-2 Correlations among Marketing Department Variables

	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U	MKTSTAT U
	Q2.4	Q2.5	Q2.6	Q2.7	Q2.10	Q2.11	Q2.12.1	Q2.12.2	Q2.12.3	Q2.12.4	Q2.12.5	Q2.12.6	Q2.14	Q2.15
Q2.4MKTSTATU	1.000	-.206	-.211	-.286	.038	.169	-.241	-.102	-.113	-.202	-.202	-.253	-.147	.354
Q2.5MKTRESP O		1.000	.467	.258	.062	-.009	.129	.070	.204	.100	.216	.176	.187	-.246
Q2.6MKTINFLU			1.000	.526	.117	-.071	.108	.077	.218	.181	.179	.116	.238	-.221
Q2.7MKTHEAD				1.000	.126	-.144	.192	.131	.263	.197	.244	.251	.309	-.180
Q2.10RELAMKSA					1.000	.142	.150	.117	.112	.101	-.002	.019	.145	-.148
Q2.11RELAOTHE						1.000	.019	-.011	.058	-.049	-.158	-.108	-.074	-.061
Q2.12. RELAPROD 1							1.000	.372	.397	.415	.350	.539	.275	-.124
Q2.12. RELAPUPH 2								1.000	.444	.395	.461	.375	.179	-.068
Q2.12. RELASALE 3									1.000	.345	.440	.330	.124	-.183
Q2.12. RELAFINA 4										1.000	.372	.407	.223	-.105
Q2.12. RELAPERS 5											1.000	.502	.276	-.177
Q2.12. RELAR&D 6												1.000	.311	-.148
Q2.14NPRMKT													1.000	-.209
Q2.15ROLEMKT														1.000

Table 6-3 Correlations among Marketing Competitiveness Variables

	COMPRMKT Q4.1	COMPRMKT Q4.2	COMPRMKT Q4.4	COMPRMKT Q4.7.1	COMPRMKT Q4.7.2	COMPRMKT Q4.7.3	COMPRMKT Q4.7.5	COMPRMKT Q4.7.6	COMPRMKT Q4.7.7	COMPRMKT Q4.9a	COMPRMKT Q4.10
Q4.1COMPRMKT	1.000	.578	.277	.130	.134	.021	.116	.115	.176	.132	.112
Q4.2COMEXTEN		1.000	.292	.232	.116	.121	.209	.153	.116	.047	.082
Q4.4METINFOR			1.000	.045	.137	.180	.043	.120	.144	.044	.150
Q4.7.1KNOWMKT				1.000	.620	.530	.346	.417	.351	.049	.008
Q4.7.2KNOWPRO					1.000	.469	.445	.441	.395	.129	.064
Q4.7.3KNOWCTOR						1.000	.429	.546	.481	.057	.112
Q4.7.5KNOWPROF							1.000	.662	.643	-.024	.195
Q4.7.6KNOWCUSN								1.000	.727	-.010	.149
Q4.7.7KNOWCBUS									1.000	-.050	.141
Q4.9aFAIRCOMP										1.000	.039
Q4.10NODEALRE											1.000

Table 6-4 Correlations among Marketing Activities Variables

	MKTAPP RO	MKTAPPR O	MKTAPPR O	MKTAPPR O	MKTAPPR O	MKTAPPR O	MKTAPPR O	MKTAPPR O	MKTAPPR O	MKTAPPR O	MKTAPPR O	MKTAPPR O
	Q3.2	Q3.3.1	Q3.3.2	Q3.3.3	Q3.3.4	Q3.3.5	Q3.3.6	Q3.3.7	Q3.3.8	Q3.3.9	Q3.3.10	Q3.6
Q3.2MKTAPPRO	1.000	-.024	.014	.134	-.002	.047	.066	.002	.108	-.071	-.101	.027
Q3.3.1MKTOREN1		1.000	-.143	.057	-.152	.051	-.079	.103	-.093	-.146	-.061	-.010
Q3.3.2MKTOREN2			1.000	-.089	.087	-.004	-.163	.072	.131	.132	-.037	-.043
Q3.3.3MKTOREN3				1.000	.072	-.054	.090	.016	-.032	-.134	-.127	.072
Q3.3.4MKTOREN4					1.000	.006	.078	-.048	.094	.021	.036	.058
Q3.3.5MKTOREN5						1.000	.028	-.035	-.026	.020	-.064	-.044
Q3.3.6MKTOREN6							1.000	-.016	-.012	.015	.076	.018
Q3.3.7MKTOREN7								1.000	-.022	.003	-.021	.089
Q3.3.8MKTOREN8									1.000	.205	.124	-.009
Q3.3.9MKTOREN9										1.000	.045	-.048
Q3.3.10MKTOREN0											1.000	-.014
Q3.6ADVEREXP												1.000
Q3.10.1PRICEOJ1												
Q3.10.2PRICEOJ2												
Q3.10.3PRICEOJ3												
Q3.10.4PRICEOJ4												
Q3.10.5PRICEOJ5												
Q3.14.1PRICEEF1												
Q3.14.2PRICEEF2												
Q3.14.3PRICEEF3												
Q3.14.4PRICEEF4												
Q3.14.5PRICEEF5												
Q3.15MKTRECOD												
Q3.16MKTREEXP												
Q3.17USEMKTRE												
Q3.18MKTPLAN												
Q3.19SUCCPLAN												
Q3.23.1AGMKTRES												
Q3.23.2AGMKTADV												
Q3.23.3AGMKTMAI												
Q3.23.4AGMKTTEL												
Q3.23.5AGMKTDES												
Q3.23.6AGMKT COS												

Table 6-4 Correlations among Marketing Activities Variables (Continued)

	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO
	Q3.10.1	Q3.10.2	Q3.10.3	Q3.10.4	Q3.10.5	Q3.14.1	Q3.14.2	Q3.14.3	Q3.14.4	Q3.14.5
Q3.2MKTAPPRO	.127	.072	-.034	-.103	.023	.134	.116	.125	.152	-.010
Q3.3.1MKTOREN1	.003	.030	-.012	-.054	-.040	-.035	.182	.134	.162	.128
Q3.3.2MKTOREN2	.026	-.095	-.032	-.017	-.068	.030	.012	-.034	.012	.015
Q3.3.3MKTOREN3	-.020	.152	-.060	-.041	.019	.129	.157	.065	.081	.154
Q3.3.4MKTOREN4	-.112	.008	-.043	.070	.027	-.039	.004	-.093	-.042	-.068
Q3.3.5MKTOREN5	-.002	-.070	-.015	-.020	-.073	-.069	-.014	.002	.052	-.098
Q3.3.6MKTOREN6	.052	.035	-.110	-.057	.084	-.061	-.067	-.088	-.020	-.058
Q3.3.7MKTOREN7	-.029	.000	.053	.041	.078	-.035	.000	-.038	.003	-.032
Q3.3.8MKTOREN8	.067	-.090	.000	.038	-.012	-.038	-.006	-.036	.015	-.069
Q3.3.9MKTOREN9	.009	-.025	-.027	.029	.028	-.014	-.114	-.148	-.065	-.029
Q3.3.10MKTOREN0	.052	-.149	-.049	.051	.052	.076	.016	-.013	.067	-.050
Q3.6ADVEREXP	.185	.033	-.163	-.137	-.071	-.067	.171	.160	.099	.167
Q3.10.1PRICEQJ1	1.000	-.023	-.260	-.224	.076	-.015	-.022	-.047	-.007	.020
Q3.10.2PRICEQJ2		1.000	-.013	-.081	.019	.020	-.038	.058	-.007	.058
Q3.10.3PRICEQJ3			1.000	.106	.116	.162	.137	.092	.134	.069
Q3.10.4PRICEQJ4				1.000	.135	.025	-.135	-.132	-.144	-.154
Q3.10.5PRICEQJ5					1.000	-.066	-.042	.056	.045	-.032
Q3.14.1PRICEEF1						1.000	.278	.203	.333	.366
Q3.14.2PRICEEF2							1.000	.708	.629	.557
Q3.14.3PRICEEF3								1.000	.586	.461
Q3.14.4PRICEEF4									1.000	.591
Q3.14.5PRICEEF5										1.000
Q3.15MKTRECOD										
Q3.16MKTREEXP										
Q3.17USEMKTRE										
Q3.18MKTPLAN										
Q3.19SUCCPLAN										
Q3.23.1AGMKTRES										
Q3.23.2AGMKTADV										
Q3.23.3AGMKTMAI										
Q3.23.4AGMKTTEL										
Q3.23.5AGMKTDES										
Q3.23.6AGMKT COS										

Table 6-4 Correlations among Marketing Activities Variables (Continued)

	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO	MKTAPPRO
	Q3.15	Q3.16	Q3.17	Q3.18	Q3.19	Q3.23.1	Q3.23.2	Q3.23.3	Q3.23.4	Q3.23.5	Q3.23.6
Q3.2MKTAPPRO	-.117	-.117	-.126	-.056	.072	-.045	.015	.031	.022	-.047	-.038
Q3.3.1MKTOREN1	-.080	-.042	.041	.030	.131	.066	-.013	.090	.094	.098	.103
Q3.3.2MKTOREN2	-.087	-.110	-.041	-.021	.005	-.077	-.055	-.029	.003	.024	-.026
Q3.3.3MKTOREN3	-.073	-.025	-.035	-.028	-.056	.057	.001	-.034	-.009	-.010	-.043
Q3.3.4MKTOREN4	.000	.047	-.105	.018	-.057	.025	-.029	-.025	-.008	.058	.041
Q3.3.5MKTOREN5	.037	-.051	-.054	-.034	.054	.037	.103	.002	-.039	-.028	-.010
Q3.3.6MKTOREN6	.060	.044	.036	.027	.032	-.026	-.070	-.056	-.078	-.062	-.055
Q3.3.7MKTOREN7	-.053	-.067	.113	.027	-.105	-.114	-.078	-.064	-.117	-.126	-.057
Q3.3.8MKTOREN8	-.059	.057	-.125	.020	-.106	-.003	.006	.025	.025	-.014	.002
Q3.3.9MKTOREN9	-.006	.020	-.067	.030	-.025	-.040	-.046	.017	.027	.024	.000
Q3.3.10MKTOREN0	.035	.028	.018	-.009	-.062	.015	.022	.036	-.020	.022	.029
Q3.6ADVEREXP	-.311	-.285	-.039	-.080	-.026	.184	-.029	.180	.214	.197	.128
Q3.10.1PRICEQJ1	-.011	-.052	.024	-.009	.124	.011	-.091	-.009	-.022	-.044	-.046
Q3.10.2PRICEQJ2	-.057	.029	-.008	-.106	-.023	.092	-.023	.063	.129	.030	-.015
Q3.10.3PRICEQJ3	.140	.110	-.006	.149	-.034	.088	.107	-.006	.007	-.054	.022
Q3.10.4PRICEQJ4	.095	.102	.145	.179	.088	-.042	-.008	-.039	.014	-.006	.019
Q3.10.5PRICEQJ5	.059	.070	.051	.116	.075	-.064	-.031	-.079	-.072	-.088	-.088
Q3.14.1PRICEEF1	.050	.045	-.025	.100	.100	.228	.200	.242	.258	.195	.224
Q3.14.2PRICEEF2	-.169	-.038	.046	.113	.081	.315	.185	.327	.311	.286	.268
Q3.14.3PRICEEF3	-.166	-.068	.140	.058	.072	.216	.128	.217	.212	.198	.182
Q3.14.4PRICEEF4	-.141	-.057	.066	.139	.132	.297	.179	.327	.277	.292	.283
Q3.14.5PRICEEF5	-.102	-.044	.083	.012	.124	.382	.187	.415	.347	.377	.341
Q3.15MKTRECOD	1.000	.617	.088	.216	-.006	-.024	.099	-.064	-.009	-.012	.015
Q3.16MKTREEXP		1.000	.024	.137	-.086	.031	.116	-.018	.004	.014	-.025
Q3.17USEMKTRE			1.000	.152	.111	.031	.048	.039	.037	.077	.059
Q3.18MKTPLAN				1.000	-.069	.068	.176	.104	.120	.110	.143
Q3.19SUCCPLAN					1.000	.108	-.016	.089	.083	.168	.128
Q3.23.1AGMKTTRES						1.000	.546	.707	.684	.688	.685
Q3.23.2AGMKTTADV							1.000	.511	.471	.556	.554
Q3.23.3AGMKTTMAI								1.000	.863	.812	.804
Q3.23.4AGMKTTTEL									1.000	.787	.772
Q3.23.5AGMKTTDES										1.000	.804
Q3.23.6AGMKTTCOS											1.000

Table 6-5 Correlations among Government Control Variables

	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVI NFLU	GOVIN FLU	GOVI NFLU	GOVI NFLU	GOVI NFLU
	Q5.1	Q5.3.1	Q5.3.2	Q5.3.3	Q5.3.4	Q5.3.5	Q5.3.6	Q5.3.7	Q5.5.1	Q5.5.2	Q5.6.1	Q5.6.2	Q5.6.3	Q5.6.4	Q5.7.1	Q5.7.2	Q5.7.3	Q5.7.4	Q5.8	Q5.9
Q5.1GOVINFLU	1.000	.223	.013	-.046	.022	.104	.104	.079	-.031	.032	.145	.080	.074	-.034	.190	.136	.086	-.076	.264	.281
Q5.3.1CONPRICE		1.000	.100	-.013	-.015	.360	.335	.289	-.051	.068	.337	.379	.194	.114	.383	.480	.181	.121	.298	.190
Q5.3.2CONTAX			1.000	.082	.224	.115	.150	.083	.147	-.135	.240	.015	.149	.009	.116	.125	.179	.021	.034	-.064
Q5.3.3CONLICEN				1.000	.004	.025	.063	.025	-.048	.063	.031	.011	.067	.046	.055	.075	.195	.069	-.088	-.101
Q5.3.4CONLOAN					1.000	.039	.079	-.044	-.029	-.007	.117	-.029	.114	.112	.141	-.023	.037	.087	-.157	-.085
Q5.3.5CONOUTPU						1.000	.296	.195	-.147	.059	.214	.257	.247	.080	.259	.323	.175	.169	.191	.145
Q5.3.6CONRAWM							1.000	.180	-.204	.189	.190	.201	.099	.296	.174	.263	.254	.279	.197	.133
Q5.3.7CONLAWC								1.000	-.047	.012	.150	.192	.029	.155	.164	.107	.115	.270	.124	.034
Q5.5.1SELLMKT									1.000	-.720	.089	-.072	-.008	-.193	.030	.008	-.085	-.319	-.232	-.182
Q5.5.2SELLPLAN										1.000	-.074	.042	.056	.146	-.028	.049	.057	.224	.234	.152
Q5.6.1PURPRICE											1.000	.462	.175	.040	.682	.544	.114	.140	.127	.090
Q5.6.2PURQUAN												1.000	.131	.057	.488	.572	.096	.188	.158	.122
Q5.6.3PURSUPPL													1.000	.011	.218	.292	.136	.146	.053	.105
Q5.6.4PURREGIO														1.000	.012	.179	.114	.336	.084	.110
Q5.7.1SALEPRIC															1.000	.468	.067	.155	.115	.117
Q5.7.2SALEQUAN																1.000	.115	.219	.209	.173
Q5.7.3SALEBUY																	1.000	.054	.085	.046
Q5.7.4SALEREGIO																		1.000	.140	.136
Q5.8SALECOMP																			1.000	.688
Q5.9PRODCOMP																				1.000

6.4 FACTOR ANALYSIS

Direct variable-level analysis, such as mean, deviation and correlation analysis, can be used to examine the meaning of each variable. Factor analysis identifies the inter-relationships among variables in an effort to find a new set of variables, which is called a factor. The number of factors is less than that of the original variables. In this study, factor analysis is applied to reduce the variables of marketing department, marketing activities, competitiveness and government control into a smaller and more manageable number of overall dimensions which still contain most of the original information. This section reports the procedures and results of the analysis.

As explained in Section 4.6.1.1, the Kaiser-Meyer-Olkin measure of sampling adequacy (MSA) and Bartlett's test of Sphericity are two indicators of the appropriateness of performing factor analysis. The MSAs of the marketing activities variables, marketing department variables, marketing competitiveness variables and government control variables are 0.771, 0.766, 0.722 and 0.734 respectively. The significance levels of Bartlett's Test of Sphericity are all 0.00. These two indicators thus confirm the validity of conducting factor analysis on these data. In this study, the principal components and direct oblimin rotation eigenvalue (more than or equal to 1) is used as the criterion for deciding the number of factors (see Sections 4.6.1.2 and 4.6.1.3 for an explanation).

The results of the factor analysis for marketing department, marketing activity, competitiveness and government control variables are presented in Tables 6-6, 6-7, 6-8 and 6-9. It can be seen that there is one factor for each of the following dimensions in the respective sample.

6.4.1 FACTORS IN THE MARKETING DEPARTMENT VARIABLES

The structure of the factors for the marketing department is presented in Table 6-6. Factor 1 is called *inter-functional cooperation* and consists of six variables indicating the extent to which the marketing department cooperates with other functional departments. The variables are: cooperate with the production, purchasing, sales, finance, IT and R&D departments respectively. The factor loadings range from 0.64 to 0.78, which is 27.63% of the total variance.

Factor 2, defined by the involvement of top management in marketing, is labelled *marketing management*. Variables included in this factor are: who is most responsible for marketing, his influence on the marketing strategy, and the role of the marketing director.

Factor 3, *the position of the marketing department*, is highly correlated with two variables: the relationship between the marketing and sales department, and the status between the marketing department and other functional departments. These three factors explain nearly 50% of the total variance.

The remaining factor (factor 4), *marketing status*, explains an additional 7.39 % of the variance, includes two variables: the status of marketing and the role of marketing.

It is understandable that these four factors are important for measuring the marketing department. Dibb *et al.* (2001: 720) contend that the marketing department must interact with other key functional departments, i.e. the production department, the R&D department, the finance department, the sales department and the physical distribution department, and use the marketing concept as a guiding philosophy. The marketing director should take part in top-level decision-making and the top management team should be closely involved in marketing. The

marketing department should also be at the same level as the other functional departments.

Table 6-6 Extraction of Factors for the Marketing Department

Factor	Activities	Factor Loading	Eigenvalue	% of Variance	Cumulative (%)
Inter-functional cooperation	2.12.1	0.72	3.87	27.63	27.63
	2.12.2	0.78			
	2.12.3	0.64			
	2.12.4	0.67			
	2.12.5	0.69			
	2.12.6	0.72			
Marketing Management	2.5	-0.63	1.69	12.07	39.70
	2.6	-0.89			
	2.7	-0.74			
Position of the marketing department	2.10	0.66	1.29	9.20	48.90
	2.11	0.76			
Marketing's Status	2.4	0.75	1.04	7.39	29
	2.15	0.79			

6.4.2 FACTORS IN THE MARKETING ACTIVITY VARIABLES

The results of the factor analysis for the marketing activity variables are shown in Table 6-7. Eleven factors accounting for 63.8% of the total variance are extracted and interpreted by examining their component variables. The first of the 11 factors, accounting for the greatest individual amount of the variance (16.68%), is *the use of marketing agents*. The six variables included in this factor are: the use of a marketing research agent, advertising agent, a direct mail agent, a telesales agent, a corporate design agent and a promotion consultancy agent. The range of factor loadings is from 0.911 to 0.694.

The second factor, *marketing research*, consists of three variables: marketing research, the annual expenditure on marketing research, and the annual expenditure on advertising. The range of factor loadings is from 0.843 to 0.503. Annual expenditure on advertising may not seem to relate to this factor. What it suggests is

that an enterprise with high expenditure on marketing research is also likely to have high expenditure on advertising. However, this is not discussed in this research.

The third factor, *price promotions*, comprises four variables with factor loadings from 0.828 to 0.672. Variables include price promotions which create brand switchers, price promotions which destroy the long-term health of the brand, non-price promotions which create brand loyalty, and non-price promotions which have little effect on sales. The fourth factor, *inter-functional co-ordination*, includes two variables: top managers paying regular visit to customers, and having business functions integrated to serve market needs. The factor loadings are 0.803 and 0.538.

The fifth factor, *competition orientation*, covers three variables: rapid response to competitive market actions, top management regularly discuss competitor's strengths/weakness, and salespeople sharing information on competitors' strategies. These contribute factor loadings from 0.721 to 0.566.

The sixth factor is defined by three variables: no-loss, gains market share, and seeks long-term profit – all from the question on price decision objectives. These require a little more imagination. Pricing objectives are overall goals that describe what an enterprise wants to achieve through its pricing efforts. They influence decisions in most functional areas. Pricing objectives must be consistent with the enterprise's overall mission and purpose. They can even have a dramatic impact on an enterprise's profits (Dibb *et al.*, 2001). Therefore, the sixth factor is called *marketing objective* and has factor loadings from 0.885 to 0.513.

The seventh factor, *customer orientation*, has only one variable with a factor loading of 0.736. Together, all seven factors explain over 50% of the variance.

The remaining four factors explain an additional 13.26% of the variance. The eighth factor includes two variables with factor loadings 0.806 and 0.551. The two

variables are: formal marketing planning in enterprises, and current profit maximisation. The negative correlation coefficient (-0.106, in Table 6-3) of this pair of variables may give us a clue to the naming of this factor. It implies that an enterprise without a long-term marketing plan tends to seek current profit maximisation. This thus seems to represent a planning factor. Therefore, this factor is called *marketing plan*.

Table 6-7 Extraction of Factors for Marketing Activities

Factor	Activity	Factor Loading	Eigenvalue	% of Variance	Cumulative (%)
Use of marketing agents	3.23.1	0.80	5.505	16.681	16.681
	3.23.2	0.69			
	3.23.3	0.91			
	3.23.4	0.90			
	3.23.5	0.91			
	3.23.6	0.89			
Marketing research	3.6	-0.50	2.932	8.885	25.566
	3.15	0.84			
	3.16	0.79			
Price promotions	3.14.2	0.83	2.147	6.505	32.071
	3.14.3	0.83			
	3.14.4	0.82			
	3.14.5	0.67			
Inter-functional coordination	3.3.3	0.80	1.612	4.886	36.957
	3.3.8	0.54			
Competitive orientation	3.3.2	-0.59	1.564	4.738	41.695
	3.3.7	-0.57			
	3.3.9	-0.72			
Marketing objective	3.10.1	-0.89	1.485	4.501	46.196
	3.10.3	0.56			
	3.10.4	0.51			
Customer orientation	3.3.1	0.74	1.323	4.008	50.204
Marketing plan	3.10.2	0.81	1.225	3.713	53.917
	3.18	-0.55			
Customer satisfaction	3.3.5	0.85	1.167	3.535	57.452
Price reflects quality	3.10.5	0.76	1.065	3.226	60.678
Internal communication	3.3.10	-0.84	1.019	3.087	63.765

The ninth factor, *customer satisfaction*, has one variable to reflect the fact that customer satisfaction is frequently and systematically measured. The tenth factor is *price reflects quality* with one variable. Lastly, the eleventh factor, *internal communication*, has one variable with a factor loading of 0.841.

Narver and Slater (1990) show that market orientation includes the dimensions of customer orientation, competition orientation, inter-functional co-ordination, or some kind of combination of these dimensions. Amongst the 11 eleven factors that have been mentioned, factors 4, 5, 7, 9 and 11 identify the different forms of market orientation. Factor 5 represents the dimension of competition orientation. Factors 7 and 9 relate to the dimension of customer orientation. Factors 4 and 11 depict the dimension of inter-functional co-ordination. Other factors represent a number of marketing activities that may explain Chinese enterprises' marketing behaviour in some particular aspects, such as the use of marketing agents, marketing plan, price promotions, etc.

6.4.3 FACTORS IN THE MARKETING COMPETITIVENESS VARIABLES

The factor structure for marketing competitiveness is presented in Table 6-8. There are four factors in total. The first factor has three variables that are related to the knowledge of customers. It is therefore called *knowledge of customers*. The three variables are: knowing customers' profiles, knowing customers' needs, and understanding customers' buying behaviour. They have factor loadings from 0.810 to 0.800, corresponding to 27.437% of the total variance.

The second factor is *product's status*, which also includes three variables with factor loadings ranging from 0.880 to 0.515, and explains 16.266% of the variance. The three variables are: product's market status, product's competition tendency, and gathering of information about competitors.

The third and fourth factors, *knowledge of market* and *fair competition*, explain 21.132% of the variance. The third factor is highly correlated with three variables: understanding of the market's tendency, knowing the product market, and knowing the main competitors. The fourth factor has two variables relating to China's distinct features (*guo qing*): fair competition and no-deal relationship.

Table 6-8 Extraction of Factors for Marketing Competitiveness

Factor	Competitiveness	Factor Loading	Eigenvalue	% of Variance	Cumulative (%)
Knowledge of customers	4.7.5	0.81	3.018	27.437	27.437
	4.7.6	0.80			
	4.7.7	0.81			
Product's status	4.1	0.86	1.789	16.266	43.703
	4.2	0.88			
	4.4	0.52			
Knowledge of market	4.7.1	0.84	1.277	11.605	55.308
	4.7.2	0.69			
	4.7.3	0.53			
Fair competition	4.9a	0.56	1.048	9.527	64.835
	4.10	0.77			

6.4.4 FACTORS IN THE GOVERNMENT CONTROL VARIABLES

As can be seen from Table 6-9, the government control variables have been extracted into six factors. Factor 1, *price control*, identifies four variables: price control and quantity control in purchasing and sales. It has factor loadings from 0.835 to 0.772, corresponding to 20.394% of the total variance.

Factor 2, *sales control*, consists of two variables with high factor loadings that reflect the extent of control by form of sales. It accounts for 11.428% of the total variance. These two variables: selling by the market and selling by central plan.

Factor 3, *comprehensive control*, includes three variables that are related to the government control in various aspects of enterprises' marketing. The variables are:

government influence, compulsory plan control in sales, and in production. Factor loadings range from 0.820 to 0.611. This explains 8.597% of the total variance.

Factor 4, *finance control*, consists of two variables: tax control and substituting loan control. It explains 6.554% of the total variance. This factor represents the economic methods which are used to control enterprises by the government.

Table 6-9 Extraction of Factors for Government Control

Factor	Activities	Factor loading	Eigenvalue	% of variance	Cumulative (%)
Price control	5.6.1	0.80	4.079	20.394	20.394
	5.6.2	0.81			
	5.7.1	0.84			
	5.7.2	0.77			
Sales control	5.5.1	0.85	2.286	11.428	31.822
	5.5.2	-0.86			
Comprehensive control	5.1	-0.61	1.719	8.597	40.419
	5.8	-0.82			
	5.9	-0.82			
Finance control	5.3.2	0.53	1.311	6.554	46.973
	5.3.4	0.85			
Channels control	5.6.4	-0.71	1.184	5.921	52.894
	5.7.4	-0.61			
	5.3.7	-0.62			
Production control	5.7.3	-0.74	1.129	5.643	58.537
	5.3.3	-0.66			

The above described four factors account for 46.973% of the total variance. The remaining two factors include five variables to explain an additional 11.564% of the variance. They are factors 5 and 6. Factor 5, *channels control*, includes three variables: purchase channels, distribution channels, and control by business law. These come with factor loadings from 0.71 to 0.61.

Factor 6 is *production control* and has two variables: production licence and sales licence. Although the latter (sales licence) may not seem to relate directly to factor 6, it will presumably a similar outcome to production licence for some products or some markets if the manufacture and sales of the product are located in a special enterprise zone or region.

6.4.5 THE RESULTS OF FACTOR ANALYSIS

In the four previous sections (Sections 6.4.1-6.4.4), factor analysis was applied four times to the marketing department, marketing activities, marketing competitiveness and government control variables in order to reduce the variables and obtain easily understandable and interpretable factors that convey the essential information contained in the original set of variables. The results of the factor analysis show that the four, eleven, four and six extracted factors in total account for 56.29%, 63.77%, 64.84% and 58.54% of the variance respectively. These almost match the 60% of the total variance of the original 14, 33, 11 and 20 variables (Table 6-10).

Table 6-10 Variables Used in the Factor Analysis

Name	Number
Marketing department variables	14
Marketing activity variables	33
Marketing competitiveness variables	11
Government control variables	20

The four factors defined by 14 of the marketing department variables are: (1) inter-functional cooperation, (2) marketing management, (3) position of the marketing department and (4) marketing status (to represent the role and place of the marketing department in Chinese enterprises). These factors will subsequently be used to determine whether a marketing department is strong or weak.

The 11 factors extracted by 33 of the marketing activities variables are: (1) use of marketing agents, (2) marketing research, (3) price promotions, (4) inter-functional coordination, (5) competitive orientation, (6) marketing objectives, (7) customer orientation, (8) marketing plan, (9) customer satisfaction, (10) price reflects quality and (11) internal communication. These 11 factors represent the Chinese enterprises' marketing activities in relation to marketing orientation, marketing plan, marketing objectives, and marketing research, and will be used to identify the characteristics of enterprises' marketing activities.

In the set of variables for marketing competitiveness, 11 variables are reduced into four factors: (1) knowledge of customers, (2) product's status, (3) knowledge of the market, and (4) fair competition in order to understand the marketing competitiveness of Chinese enterprises.

The last set variables relates to government control. 20 variables from the questionnaire items are extracted into six factors: (1) price control, (2) sales control, (3) comprehensive control, (4) finance control, (5) channels control, and (6) production control. Further research reveals the extent of government control of Chinese enterprises.

6.5 SUMMARY

Pearson's correlation analysis was first performed to examine the relationships that exist in the original sets of marketing department, marketing activities, marketing competitiveness and government control variables respectively. This research examines a number of issues relate to the application of the marketing concept and marketing behaviour in Chinese enterprises, which are better represented by a number of the groups of variables. A number of relatively high correlation coefficients for pairs of variables in the Pearson's correlation analysis indicated that those variables should be grouped together.

Secondly, factor analysis was employed four times to identify the factors underlying marketing behaviour and to reduce the variables of marketing department, marketing activities, marketing competitiveness and government control from 14, 33, 11 and 20 to 4, 11, 4 and 6 respectively. The factors are summarised in Table 6-11.

Table 6 -11 Factors for Marketing Department, Marketing Activities, Marketing Competitiveness and Government Control

No.	Marketing department	Marketing activities	Marketing competitiveness	Government control
1.	Inter-functional cooperation	Use of marketing agents	Knowledge of customers	Price control
2.	Marketing management	Marketing research	Product's status	Sales control
3.	Position of the marketing department	Price promotions	Knowledge of market	Comprehensive control
4.	Marketing status	Inter-functional coordination	Fair competition	Finance control
5.		Competitive orientation		Channels control
6.		Marketing objective		Production control
7.		Customer orientation		
8.		Marketing plan		
9.		Customer satisfaction		
10.		Price reflects quality		
11.		Internal communication		

Table 6-11 shows that four factors from the marketing department variables express the general competence of the marketing department. Eleven factors are extracted from the marketing activities variables. These factors identify the general marketing attitude and behavioural propensities towards different marketing orientations in Chinese enterprises' marketing activities. Four factors are extracted from the marketing competitiveness variables to reflect the competitiveness of Chinese enterprises. Six factors from the government control variables represent six aspects of government control in Chinese enterprises' marketing. These factors will be used to find the relationships and influences between the marketing department's competence, marketing activities, competitiveness and government control. Also, these factors will be analysed to examine the current situation of Chinese enterprises in accepting the marketing concept and the development of a marketing orientation. Moreover, we also hope to identify the applicability of the Western marketing concept and strategies to China's distinctive situation.

All the variables from the questionnaire items were first selected to undergo the Pearson's correlation analysis. Then, from the Pearson's correlation analysis, 78

variables were selected for the factor analysis according to the high correlation coefficients. Finally, 25 factors were extracted from the factor analysis (Table 6-11) as useful substitutes for the original variables. The cluster analysis will be applied as described in the next chapter.

7 CLUSTER ANALYSIS AND THE TESTING OF HYPOTHESES

- 7.1 *Introduction*
- 7.2 *Cluster Analysis*
- 7.3 *Chi-square Testing of the Hypotheses*
- 7.4 *Summary*

7.1 INTRODUCTION

The analysis in Chapter 6 revealed that a number of relationships exist among marketing activities, the marketing department, marketing competitiveness and government control in Chinese enterprises. Factor analysis was conducted to reduce the number of variables. This chapter discusses the process and outcome of cluster analysis, which is a research methodology applied in this research to identify similar groups within the data set. This enables the characteristics of similar enterprises to be determined and subsequently categorised.

Based on the previously identified four smaller groups of underlying factors -- marketing department, marketing activities, marketing competitiveness, and government control factors as described in Chapter 6, this chapter presents two clusters produced, namely strong and weak, for each group of these factors. The profiles of each cluster are further explored to reveal the characteristics of each individual cluster. The second part of this chapter validates the results from the cluster analysis by significance tests, split-half analysis and discriminant analysis. In the rest of this chapter, attention is given to the testing of hypotheses. *Chi-square* tests are used to determine whether responses differ significantly by marketing department, marketing activities, competitiveness, government control, or the ownership of enterprises.

7.2 CLUSTER ANALYSIS

As was described in Chapter 4.6.2, in order to distinguish between the marketing behaviour of different groups of enterprises, the extracted factors from the factor analysis (see Section 6.4) were subjected to cluster analysis. The objective for performing cluster analysis was to assign all 260 respondent enterprises to one of the cluster groups (strong or weak) -- marketing activities, marketing department, marketing competitiveness and government control – and then to test the research hypotheses relevant the apparent influence of marketing department's competence in enterprise's marketing activities and competitiveness and the apparent influence of government control on different ownerships of enterprise and influence of enterprise's ownership on adopting the marketing concept and marketing orientation.

7.2.1 CLUSTERING THE CASES

The findings from empirical studies of cluster methods suggest that attention to the initial variable selection is crucial because even one or two irrelevant variables may distort an otherwise useful cluster solution (Punj and Stewart, 1983: 146). The choice of variables is highly subjective and is based on the individual researcher's research hypotheses (Lin, 1996). "Ideally, only a small number of variables should be required to classify individuals" (Punj and Stewart, 1983: 146). Therefore, it is necessary to choose a finite subset of variables in order to achieve clear classification results.

As discussed in Section 4.6.1, factor analysis is designed to isolate and identify the main sources of individual variation in the data. For example, it can easily reduce the selected 78 variables to 25 useful factors. The factor score is more easily understood and more reliable than single variables. So, in this research, the data were subjected to factor analysis prior to the clustering. There were four sets of

variables, originating from the marketing department, marketing activities, marketing competitiveness and government control parts respectively.

The hierarchical cluster analysis performs successive divisions of the data. "One of the primary features distinguishing hierarchical techniques from other clustering algorithms is once an object joins a cluster it is never removed and fused with other objects belonging to some other cluster" (Dillon and Goldstein, 1984: 168). Thus, the hierarchical cluster analysis procedure, with factor scores as the input variables, was performed four times to group the 260 fully completed cases. Four factors, which are related to the role of the marketing department, were the first input variables for the analysis. Using Ward's hierarchical method and square Euclidean distance, the analysis produced two clusters with sample sizes of 225 and 34. Secondly, 11 factors related to marketing activities were used as input variables. This resulted in two clusters with sample sizes of 149 and 110. Thirdly, marketing competition included four factors, and these were clustered into two clusters with sample sizes of 120 and 136. Lastly, six factors related to government control were used and this resulted into two clusters with sample sizes of 180 and 77. As explained in section 4.6.2.5, a large change was taken to indicate a particular number of clusters (Everitt, 1993: 73). The definition of the cut-off point is when the successive differences in distances between steps make a sudden jump (Afifi and Clark, 1996: 395). Appendixes 5-1, 5-2, 5-3 and 5-4 all show a large change in the dendrogram level from cluster level 4 to level 2, which indicates that 2 is an appropriate cluster level to select in this research.

7.2.2 CHARACTERISTICS OF CLUSTERS

This section explores the characteristics of each cluster, classified under the subject titles of marketing department, marketing activities, marketing competitiveness and government control. The different groups among the clusters are given in Tables 7-

1 to 7-4, which show the profile of mean scores across all the dimensions for each cluster.

Table 7-1 Profiles of Mean Scores for Each Cluster in the Marketing Department Variables

Marketing Department Factors	Department Variables	Cluster 1 (N = 225)	Cluster 2 (N = 34)	F*	P
Inter-functional cooperation	2.12.1	1.87	4.06	129.225	0.000
	2.12.2	2.54	4.56	82.835	0.000
	2.12.3	1.93	4.00	77.368	0.000
	2.12.4	2.07	3.74	65.921	0.000
	2.12.5	2.22	4.50	108.373	0.000
	2.12.6	2.19	4.21	87.007	0.000
Marketing management	2.5	1.57	2.29	16.482	0.000
	2.6	1.63	2.74	30.969	0.000
	2.7	1.97	3.06	34.863	0.000
The position of the marketing department	2.10	1.57	1.68	0.593	0.443
	2.11	2.13	1.88	10.502	0.001
Marketing status	2.4	2.53	1.97	17.551	0.000
	2.15	2.90	2.65	2.191	0.140

7.2.2.1 DEPARTMENT CLUSTERS

Cluster 1 – strong marketing department: The marketing department of an enterprise in this cluster appears to be in a very strong position. Top-level management seems to be quite important in developing a marketing strategy. Marketing management has a high level of responsibility for marketing strategy and plays an important role in the enterprise's strategic planning. It has close cooperation with other functional departments, as this set has mean values which are the lowest within this cluster's profile.

Cluster 2 – weak marketing department: The mean scores present that the marketing department has a weak position in the enterprises of this cluster. Marketing

management has no much influence on the enterprise's marketing strategy. The marketing department also has poor cooperation with other functional departments. As the set of mean values is the highest within the cluster's profile, marketing management plays a weak role in the enterprise's strategic planning.

7.2.2.2 ACTIVITY CLUSTERS

Cluster 1 – *weak marketing activities*: Enterprises in this cluster have relatively higher mean scores in the use of marketing agents. This shows that the enterprises belonging to this group are not interested in the use of marketing agents. But this does not mean that they have no interest in marketing. The mean scores for some competitive orientation factors and marketing research are lower, indicating that more attention is paid to these areas. The mean scores in customer orientation, price objective and strategies, marketing plans are higher, which reflects weak marketing behaviour.

Cluster 2 – *strong marketing activities*: Enterprises in this cluster focus on comprehensive marketing mix strategies and marketing research, which reflects their strong marketing behaviour. They prefer to use external marketing agents and various promotion methods, and seem to have very successful marketing plans, since most mean scores are the lowest in these areas. Enterprises in this cluster have lower mean scores in some competitive orientation factors and customer satisfaction factors. This shows that these enterprises make efforts to satisfy customer inquiries so that they can attain a favourable competitive situation. There is little concern that some mean scores of the factors reflect relatively myopic marketing behaviour. For example, these enterprises pay more attention to current profit maximisation and seem not to want to seeking gains from market share and long-term profit.

Table 7-2 Profiles of Mean Scores for Each Cluster in the Marketing Activities Variables

Marketing Activities Factors	Activities Variables	Cluster 1 (N = 149)	Cluster 2 (N = 110)	F*	P
Use of marketing agents	3.23.1	2.35	2.26	0.188	0.665
	3.23.2	2.01	2.03	0.014	0.906
	3.23.3	2.41	2.15	1.396	0.238
	3.23.4	2.35	2.14	0.979	0.323
	3.23.5	2.19	2.05	0.418	0.519
	3.23.6	2.26	2.25	0.001	0.973
Marketing research	3.6	2.07	1.34	15.511	0.000
	3.15	2.32	2.94	23.161	0.000
	3.16	3.39	4.22	10.805	0.001
Price promotions	3.14.2	2.87	2.13	14.000	0.000
	3.14.3	2.58	1.99	9.174	0.003
	3.14.4	2.54	1.87	13.281	0.000
	3.14.5	3.13	2.33	14.059	0.000
Inter-functional co-ordination	3.3.3	3.48	3.40	0.641	0.424
	3.3.8	2.89	2.78	0.780	0.378
Competition orientation	3.3.2	2.53	2.61	0.529	0.468
	3.3.7	2.42	2.34	0.488	0.485
	3.3.9	3.16	3.34	1.833	0.177
Marketing objectives	3.10.1	1.85	1.68	11.098	0.001
	3.10.3	1.46	1.64	7.813	0.006
	3.10.4	1.48	1.93	74.116	0.000
Customer orientation	3.3.1	1.90	1.83	0.471	0.493
Marketing plan	3.10.2	1.90	1.75	10.068	0.002
	3.18	1.60	2.27	60.879	0.000
Customer satisfaction	3.3.5	2.26	2.09	2.219	0.138
Price reflects quality	3.10.5	1.78	1.93	10.869	0.001
Internal communication	3.3.10	2.58	2.55	0.025	0.875

7.2.2.3 COMPETITIVENESS CLUSTERS

Cluster 1 – *weak competitiveness*: All the variables are awarded higher mean scores in this cluster. The results indicate that the enterprises and the products in this cluster are not competitive. There is no good system of collecting information about their competitors. There is also a low level of knowledge of customers, competitors

and markets. Firms believe strongly that competition is not fair and that relationships (no-deal-relations) are important in marketing.

Cluster 2 – *strong competitiveness*: Enterprises in this cluster feature a good and competitive situation, which is reflected in the lower mean scores for all variables. The mean scores for the fair competition factor indicate that firms see competition as not fair, although the products have strong competitiveness and a good knowledge of their customers, competitors and markets.

Table 7-3 Profiles of Mean Scores for Each Cluster in the Market Competitiveness Variables

Market competitiveness factors	Competitiveness variables	Cluster 1 (N = 120)	Cluster 2 (N = 136)	F*	p
Knowledge of customers	4.7.5	3.01	1.94	117.814	0.000
	4.7.6	3.23	1.92	201.507	0.000
	4.7.7	3.06	2.05	90.578	0.000
Product's status	4.1	2.15	1.99	2.866	0.092
	4.2	2.68	2.51	1.683	0.196
	4.4	2.62	2.21	13.365	0.000
Knowledge of market	4.7.1	3.07	2.34	28.272	0.000
	4.7.2	2.95	1.78	122.531	0.000
	4.7.3	3.04	2.00	76.129	0.000
Fair competition	4.9a	3.81	3.69	0.477	0.490
	4.10	2.61	1.97	16.780	0.000

7.2.2.4 CONTROL CLUSTERS

Cluster 1 – *weak control*: The mean scores of all variables reflect that the enterprises in this cluster have more autonomy in the decisions of price, sales, channels, finance and production. The results imply that enterprises in this cluster are under weak control and emphasise market orientation.

Cluster 2 – *strong control*: Enterprises in this cluster have lower means in most factors. This feature indicates that government controls these enterprises' marketing activity intensively. It should be noted that the mean scores in production, price and

channels factors have no much difference compared with cluster 1, even though there are high levels of control for the sales, comprehensive and finance factors. This phenomenon indicates that although some enterprises are still controlled by government in some areas, the government has certainly given some autonomy to the enterprises, which used to be intensively controlled.

Table 7-4 Profiles of Mean Scores for Each Cluster in the Government Control Variables

Government control factors	Control variables	Cluster 1 (N = 180)	Cluster 2 (N = 77)	F*	P
Price control	5.6.1	1.79	1.62	8.135	0.005
	5.6.2	1.90	1.64	26.537	0.000
	5.7.1	1.82	1.62	11.722	0.001
	5.7.2	1.94	1.68	35.160	0.000
Sales control	5.5.1	1.39	3.04	84.779	0.000
	5.5.2	4.39	2.68	84.538	0.000
Comprehensive control	5.1	2.92	2.18	18.194	0.000
	5.8	4.37	2.27	151.855	0.000
	5.9	4.17	2.21	102.331	0.000
Finance control	5.3.2	1.63	1.83	6.480	0.011
	5.3.4	1.64	1.87	13.484	0.000
Channels control	5.6.4	1.85	1.73	5.150	0.024
	5.7.4	1.96	1.75	23.495	0.000
	5.3.7	1.92	1.88	0.920	0.338
Production control	5.7.3	1.82	1.77	1.024	0.313
	5.3.3	1.67	1.74	1.127	0.289

7.2.2.5 NAMES OF CLUSTERS

This research is to investigate the relationships and influences between marketing department's competence, marketing activities, competitiveness and government control. It related to the adoption of the marketing concept and marketing behaviour of the Chinese enterprises in the context of the Chinese business environment. According to the research proposal and the characteristics of each cluster, the two groups in the clustering procedures for each part were then named "strong" and "weak". The name was given on the basis of an examination of the characteristics of each cluster.

The two clusters identified by the marketing department factors were named *strong marketing department*, denoted as D_s , and *weak marketing department*, denoted as D_w . Similarly, the clusters identified by the marketing activities factors were named *strong marketing activities*, denoted as A_s , and *weak marketing activities*, denoted as A_w . The clusters identified by the marketing competitiveness factors were named *strong competitiveness*, denoted as C_s , and *weak competitiveness*, denoted as C_w . In the government control part, the two clusters were named *weak control*, denoted as G_w , and *strong control*, denoted as G_s . The mean factor scores of the clusters in the four parts show significant differences between the two groups.

7.2.3 VALIDATING CLUSTER RESULTS

As mentioned in Section 4.6.2.7, it is necessary to validate the results obtained from cluster analysis. This is important in this research because the results from the cluster analysis were used as a foundation for developing a model for assessing the characteristics of the marketing behaviour of Chinese enterprises. To validate the cluster results, three methods were used: significance tests (Green *et al.*, 1988: 594), the split-half test (Everitt, 1974: 66) and discriminant analysis (Tabachnick and Fidell, 1989: 508).

7.2.3.1 SIGNIFICANCE TESTS

As Green *et al.* (1988: 594) suggest, significance tests can be performed on variables used to create clusters. A series of *student's t*-tests were used to detect the different factors for the marketing department, marketing activities, marketing competitiveness and government control clusters. As Tables 7-5 to 7-8 show, the validation results for each pair cluster differ on the levels of at least 20 of the 25

factors ($P < 0.05$). Although the five significance levels, based on the results of the *student's t*-test of factor mean-difference between the pair of clusters, are larger than 0.05, significant differences do exist between each pair of clusters as identified in the four cluster analyses. This finding implies that the data gathered in this research contain a clear underlying structure (Everitt, 1974: 92). The results confirm the validity of using cluster analysis in dividing and categorising the cases in the research.

Table 7-5 Clusters by Marketing Department Variables

Part: Marketing Department	D_s (n=225)	D_w (n=34)	Mean Difference	Significance Level
Inter-functional cooperation	-0.28	1.82	-2.10	0.000
Marketing management	0.16	-1.03	1.19	0.000
The position of the marketing department	0.04	-2.9	0.33	0.072
Marketing status	0.06	-0.42	0.49	0.008

Table 7-6 Clusters by Marketing Activity Variables

Part: Marketing Activity	A_w (n=149)	A_s (n=110)	Mean Difference	Significance Level
Use of marketing agents	0.02	-0.02	0.04	0.751
Marketing research	-0.30	0.41	-0.70	0.000
Price promotions	0.23	-0.31	0.54	0.000
Inter-functional co-ordination	0.08	-0.10	0.18	0.152
Competition orientation	0.04	-0.05	0.08	0.510
Marketing objective	-0.32	0.43	-0.75	0.000
Customer orientation	-0.14	0.18	-0.32	0.010
Marketing plan	0.37	-0.50	0.86	0.000
Customer satisfaction	0.23	-0.31	0.53	0.000
Price reflects quality	-0.17	0.23	-0.40	0.001
Internal communication	-0.13	0.17	-0.30	0.018

Table 7-7 Clusters by Marketing Competitiveness Variables

Part: Marketing Competitiveness	C_w (n=120)	C_s (n=136)	Mean Difference	Significance Level
Knowledge of customers	0.72	-0.64	1.36	0.000
Product's status	0.16	-0.14	0.30	0.016
Knowledge of market	0.47	-0.42	0.89	0.000
Fair competition	0.28	-0.25	0.53	0.000

Table 7-8 Clusters by Government Control Variables

Part: Government Control	G_w (n=180)	G_s (n=77)	Mean Difference	Significance Level
Price control	0.21	-0.50	0.71	0.000
Sales control	-0.33	0.79	-1.13	0.000
Comprehensive control	-0.36	0.85	-1.20	0.000
Finance control	-0.14	0.32	-0.46	0.001
Channels control	-0.13	0.30	-0.43	0.002
Production control	-0.01	0.03	-0.04	0.775

7.2.3.2 SPLIT-HALF ANALYSIS

The second validation was done by means of the split-half analysis. This method is popularly used by a number of academics (e.g. Calantone and Cooper, 1981: 53, Fader and Lodish, 1990: 58, Hooley *et al.*, 1990: 11 and Lin, 1996: 167). The 260 cases were first randomly divided into halves (two subsets). One half was labeled the analysis sample and the other the hold-out sample (Saunders, 1994: 23). A discriminant analysis was then performed on each half separately. The discriminant function explains the cluster membership with the factor scores as the function variables. The results in Table 7-9 and Table 7-10 show very similar solutions obtained from both sets of samples. Similar solutions with high correct classification rates indicate that the cluster results in this research have a high level of validity.

Table 7-9 Classification Results for the Analysis Samples

Part	Actual group	Predicted Group		Correct Classification Rate (%)
		Strong	Weak	
Department	D_s (n=87)	84	3	91.5
	D_w (n=35)			
		1	34	
		Weak	Strong	
Activity	A_w (n=72)	68	6	87.6
	A_s (n=55)			
		10	45	
		Weak	Strong	
Competitiveness	C_w (n=55)	49	6	91.5
	C_s (n=74)			
		5	69	
		Weak	Strong	
Control	G_w (n=90)	85	5	94.6
	G_s (n=39)			
		2	37	

Shaded areas show correctly classified cases

Table 7-10 Classification Results for the Hold-Out Samples

Part	Actual Group	Predicted Group		Correct Classification Rate (%)
		Strong	Weak	
Department	D_s (n=87)	61	1	88.2
	D_w (n=35)			
		3	50	
		Weak	Strong	
Activity	A_w (n=72)	60	15	80.8
	A_s (n=55)			
		10	45	
		Weak	Strong	
Competitiveness	C_w (n=55)	58	7	92.1
	C_s (n=74)			
		3	59	
		Weak	Strong	
Control	G_w (n=90)	84	6	93.8
	G_s (n=39)			
		2	36	

Shaded areas show correctly classified cases

7.2.3.3 CONFUSION MATRIX

As discussed in Section 4.6.3, the confusion matrix shows the numbers of correct and incorrect classifications (Hair *et al.*, 1998: 241). This can be used to validate the results from cluster analysis. This is a method popularly used by academics (e.g., Kim and Lim, 1988: 815-816).

Table 7-11 Confusion Matrix of Cluster Analysis

Parts	Actual Group	Predicted Group		Correct Classification Rate (%)
		Strong	Weak	
Marketing Department	D_s (n=225)	212	13	95.0%
	D_w (n=34)	0	34	
Marketing Activity	A_w (n=149)	127	22	84.2%
	A_s (n=110)	19	91	
Marketing Competitiveness	C_w (n=120)	108	12	92.6%
	C_s (n=136)	7	129	
Government Control	G_w (n=180)	168	12	93.8%
	G_s (n=77)	4	73	

Shaded areas show correctly classified cases.

Table 7-11 presents a summary of the classification results. The diagonal elements are the number of cases classified correctly. In the case of the marketing department cluster, 212 out of the 225 strong marketing department cases are classified correctly. None is misclassified as a weak marketing department. The overall percentage of cases classified correctly is the sum of the number of cases classified correctly in each group divided by the total number of cases. In the marketing department part, 246 out of 259 cases (95.0%) are correctly classified into their

original clusters. In the marketing competition and government control parts, the high correct classification rates are 92.6% and 93.8% respectively. The marketing activity rate is 84.2%, which is somewhat lower than the other three samples. The high correct classification rates of the four parts suggest that the results from cluster analysis in the research have a high degree of validity.

7.2.4 SUMMARY OF THE CLUSTER ANALYSIS

Section 7.2 has shown the use of cluster analysis in dividing the 260 cases from four parts into different clusters. The different groups in the four parts are seen in Table 7-12.

Table 7-12 Clusters in Four Parts

Cluster 1		Cluster 2	
Strong marketing department	225	Weak marketing department	34
Weak marketing activity	149	Strong marketing activity	110
Weak Competitiveness	120	Strong Competitiveness	136
Weak Control	180	Strong Control	77

The robustness of cluster analysis was tested in three ways. First, by using the *student's t*-test, the means being 20 out of 25 ($P < 0.05$), factor scores were found to be significantly different. Secondly, by using the split-half analysis, the results of two halves appeared highly similar. Thirdly, the three parts classification results correctly classified over 90% of the cases. Only in the marketing activity part were under 90% of the original grouped cases correctly classified by using the discriminant analysis. Therefore, the two-cluster solution was accepted.

From the use of cluster analysis, it is not only apparent that the 260 cases can be divided into distinct groups according to the four different parts; but also there are unexpected aspects of the data structure gathered from the questionnaire survey. The four parts and two groups identified in each part will be further illustrated in

the next section through cross-tabulation and the *Chi-square* test to give an interpretation of the research hypotheses.

7.3 CHI-SQUARE TESTING OF THE HYPOTHESES

The *Chi-square* test is a very popular tool for the testing of hypotheses. The hypotheses were developed to relate the marketing behaviour of different enterprises to the marketing department, marketing activity, marketing competitiveness, government control and the structure of ownership of enterprises (see Section 1.3). This analysis seeks to test these hypotheses by values obtained from the *Chi-square* test. The decision criterion for the significance level is set at 5% as a general rule (Roscoe, 1969: 155).

7.3.1 MARKETING ACTIVITIES AND THE MARKETING DEPARTMENT

H1 postulated that enterprises with a strong marketing department will pursue strong marketing activities than enterprises with a weak marketing department. Despite the recent emphasis on marketing as a total business concept, marketing academics have long recognised that marketing is primarily a philosophy of the entire business (e.g. see Drucker, 1974: 61). This view of marketing as an organisational philosophy is much more appealing today than the functional view. Of course, the enterprise still depends on the capabilities embedded throughout the firm's supply chain and an operational process to satisfy customers' needs (Doyle and Wong, 1998: 2).

Most Chinese enterprises have a strong marketing department that carries out marketing activities. Marketing activities and marketing department have been clustered into two different groups, as explained in Section 7.2. Table 7-13 shows the *Chi-square* at 17.415 with the degree of freedom (df) of 1, and the significance

level is below the decision criterion of 0.05. This indicates that marketing activities are directly related to the marketing department. It can be also seen from the table that although the strong marketing activities group includes 77.1% of enterprises with a strong marketing department, the “weak marketing activities” group has an even higher percentage (94.6%) in the “strong marketing department” group. Accordingly, this result does not support H1 which enterprises with a strong marketing department will pursue strong marketing activities than enterprises with a weak marketing department.

Table 7-13 Cross-Tabulation of Marketing Activities and Marketing Department

		Strong marketing dept	Weak marketing dept	Total
Weak marketing activity	Count	141	8	149
	% within activclu	94.6%	5.4%	100.0%
	% within deptclu	62.7%	24.2%	57.8%
	% of Total	54.7%	3.1%	57.8%
Strong marketing activity	Count	84	25	109
	% within activclu	77.1%	22.9%	100.0%
	% within deptclu	37.3%	75.8%	42.2%
	% of Total	32.6%	9.7%	42.2%
Total	Count	225	33	258
	% within activclu	87.2%	12.8%	100.0%
	% within deptclu	100.0%	100.0%	100.0%
	% of Total	87.2%	12.8%	100.0%

a) 0 cells (0.0%) have expected count less than 5.

b) *Chi-square* 17.415; df 1; Sig. 0.000

Enterprises in the “weak marketing activities” group pay less attention to the marketing plan and marketing research. They have no clear marketing objective and are less customer-orientated (see Section 7.2.2.2). For all that, 94.6% of enterprises in the “weak marketing activities” group have a strong marketing department. This result indicates that when enterprises do not adopt a marketing orientation, even if the enterprise has a strong marketing department it does mean that the enterprise will exhibit strong marketing behaviour. These enterprises are focused on sales and compete in the marketplace through aggressive promotions. Customers’ needs are

not satisfied through these sales activities. Thus, the results from Table 7-13 reflect the fact that most Chinese enterprises are basically sales-oriented even if they maintain a strong marketing department.

7.3.2 MARKETING ACTIVITIES AND MARKETING COMPETITIVENESS

The positive marketing practitioner is focused on creating sustainable competitive advantage. Hypothesis H2 states that enterprises with strong marketing activities will have a stronger marketing competitiveness than enterprises with weak marketing activities.

Table 7-14 Cross-Tabulation of Marketing Activities and Marketing Competitiveness

		Weak marketing competitiveness	Strong marketing competitiveness	Total
Weak marketing activity	Count	53	94	147
	% within activelu	36.1%	63.9%	100.0%
	% within compeclu	44.2%	69.6%	57.6%
	% of Total	20.8%	36.9%	57.6%
Strong marketing activity	Count	67	41	108
	% within activelu	62.0%	38.0%	100.0%
	% within compeclu	55.8%	30.4%	42.4%
	% of Total	26.3%	16.1%	42.4%
Total	Count	120	135	255
	% within activelu	47.1%	52.9%	100.0%
	% within compeclu	100.0%	100.0%	100.0%
	% of Total	47.1%	52.9%	100.0%

a) 0 cells (0.0%) have expected count less than 5.

b) *Chi-square* 16.871; df 1; Sig. 0.000

Although strong marketing activities cannot guarantee strong marketing competitiveness, it is still surprising to find that the enterprises with weak marketing activity are strongly competitive. Table 7-14 shows that weak marketing activity enterprises have the highest percentage (36.9%) of cases in the strongly competitive category. The strong marketing activities enterprises have only 16.1 % of such cases. Hypothesis H2 is thus not accepted. The finding shows that although

marketing has been developed over 70 years in Western countries, it is still in its initial stage in China.

7.3.3 MARKETING ACTIVITIES, MARKETING ORIENTATION AND GOVERNMENT CONTROL

Government controls mainly focuses on six types of restrictions on enterprises' marketing activities: price, sales, finance, channels, production and comprehensive control. Hypothesis H3 states that enterprises with strong marketing activities are weak government-controlled than enterprises with weak marketing activities.

Table 7-15 Cross-Tabulation of Marketing Activities and Government Control

		Weak government control	Strong government control	Total
Weak marketing activity	Count	109	37	146
	% within activclu	74.7%	25.3%	100.0%
	% within conclu	60.6%	48.7%	57.0%
	% of Total	42.6%	14.5%	57.0%
Strong marketing activity	Count	71	39	110
	% within activclu	64.5%	35.5%	100.0%
	% within conclu	39.4%	51.3%	43.0%
	% of Total	27.7%	15.2%	43.0%
Total	Count	180	76	256
	% within activclu	70.3%	29.7%	100.0%
	% within conclu	100.0%	100.0%	100.0%
	% of Total	70.3%	29.7%	100.0%

a) 0 cells (0.0%) have expected count less than 5.

b) *Chi-square* 3.073; df 1; Sig. 0.080

Table 7-15 shows that 42.6% of all enterprises are grouped as having weak government control with weak marketing activities. Only 27.7% of the enterprises categorised as having weak government control with strong marketing activities and only 15.2% of enterprises with strong marketing activities have strong government control. The significance level is 0.08, which is higher than the decision criterion of 0.05. However, the results show that there is no statistical support for hypothesis

H3, which states that enterprises with strong marketing activities are weak government-controlled than enterprises with weak marketing activities.

The research results show that before economic reform in China, under the planned economic system government controlled the enterprise's planning and decision-making, production and marketing. After economic reform, the majority of enterprises became independent of government control in these areas. Two significant issues thus arise.

First, although enterprises are independent and responsible for a range of operational activities, from production planning to marketing, under the market-oriented system, enterprises may still focus on production or sales orientation. Therefore, in spite of reduced government control, bearing in mind the sales or production orientation, enterprises are more proactive but myopic in their marketing activities.

On the other hand, although some enterprises are still under some government control, they may still undertake some marketing activities. Government control in fact plays two important roles: as the planning and decision-making authority of enterprises and their competitors. Some enterprises therefore benefit from government control, because the control over their competitors reduces the intensity of competition. Therefore, some enterprises are dependent on government control in terms of price control and sales region control.

To further understand the interaction between government control and enterprise development, it must be made clear that the decline of government control does not automatically lead to the adoption of a marketing orientation by enterprises. Acceptance of the marketing concept by enterprises is another important drive towards marketing orientation.

7.3.4 ATTITUDES TOWARD MARKETING ORIENTATION

Hypotheses H4 and H5 postulate that there are the influences between the enterprises' orientation and the enterprise's ownership or government control. Therefore, these two hypotheses concern these two specific factors and their influences on marketing orientation.

To test the differences between government control in the weak and strong control groups and the enterprise's marketing orientation, the answers given to Q3.2 in the questionnaire survey were divided into non-marketing orientation and marketing orientation groups.

Table 7-16 Cross-Tabulation of Government Control and Orientation

Q3.2 Marketing approach of enterprise		Weak government control	Strong government control	Total
Non-marketing orientation	Count	76	33	109
	% within Q3.2	69.7%	30.3%	100.0%
	% within conclu	44.7%	47.8%	45.6%
	% of Total	31.8%	13.8%	45.6%
Marketing orientation	Count	94	36	130
	% within Q3.2	72.3%	27.7%	100.0%
	% within conclu	55.3%	52.2%	54.4%
	% of Total	39.3%	15.1%	54.4%
Total	Count	170	69	239
	% within Q3.2	71.1%	28.9%	100.0%
	% within conclu	100.0%	100.0%	100.0%
	% of Total	71.1%	28.9%	100.0%

a) 0 cells (0.0%) have expected count less than 5.

b) *Chi-square* 0.193 df 1; Sig. 0.661

Table 7-16 presents the results from the *Chi-square* test. The distribution of the orientation is that 44.7% and 55.3% of the respondents in the "weak government control" group have a non-marketing orientation and a marketing orientation respectively, and 47.8% and 52.2% of the "strong government control" group have a non-marketing orientation and a marketing orientation respectively. The *Chi-*

square at 0.193 has a significance level of 0.661. This is higher than the decision criterion at 0.05. This indicates that hypothesis H4, which states that enterprises that are weak government-controlled are more likely to adopt a marketing orientation than enterprises subject to strong government control is rejected.

The results indicate that when enterprises are extricated from government control, it does not mean that they will automatically convert from a production orientation to a marketing orientation. Some enterprises still show a reluctance to take advantage of greater freedom in decision-making. This shows that some enterprises still feel nostalgic about the fixed-price system, the reception of government grants and low-rate loans, the guarantee of markets for their products, and the ready access to raw materials.

There are two questions related to hypothesis H5. These are examined in Table 7-17 and Table 7-18. Three criteria (descriptions of the status of marketing) are used to identify the enterprise's attitude towards marketing: marketing is really non-existent, marketing is what sales and marketing departments do, and marketing is seen as a guiding philosophy. These responses are presented in Table 7-17. 55.3%, 67.3%, 63%, 73.2% and 66.7% of state-owned, collective, township-village, joint venture and private enterprises respectively stated that marketing is a guiding philosophy of the enterprise. The *Chi-square* at 9.665 has a significance level of 0.289, which is above the 0.05 decision criterion. Therefore, hypothesis H5, which states that state-owned enterprises have a weaker marketing orientation than township-village and private enterprises, is rejected.

Q3.2 asked enterprises to select one answer from the three provided: production orientation – “We make what we can and sell to whoever will buy”; sales orientation – “We place major emphasis on advertising and selling”; marketing orientation – “We place a major emphasis on prior analysis of marketing needs, adapting our products and services to meet them if necessary”. Table 7-18 also

provides evidence with a *Chi-square* at 2.002 and a significance level of 0.735. This is larger than the critical decision level of 0.05; hence the distribution has no difference or influence. This statistical result reflects that there are no differences in the attitude of enterprises toward marketing orientation among the enterprise's ownership. Thus, it rejects hypothesis H5 again.

Table 7-17 Cross-Tabulation of Enterprise Ownership and the Status of Marketing

Enterprise ownership	Q2.4 Best describes the status of marketing in enterprise	Marketing is really non-existent	Marketing is what sales and marketing departments do	Marketing is seen as a guiding philosophy	Total
State-owned	Count	26	29	68	123
	% within enterprise ownership	21.1%	23.6%	55.3%	100.0%
	% within Q2.4	65.0%	50.9%	43.0%	48.2%
Collectives	Count	7	10	35	52
	% within enterprise ownership	13.5%	19.2%	67.3%	100.0%
	% within Q2.4	17.5%	17.5%	22.2%	20.4%
Township-village	Count	4	6	17	27
	% within enterprise ownership	14.8%	22.2%	63.0%	100.0%
	% within Q2.4	10.0%	10.5%	10.8%	10.6%
Joint venture	Count	1	10	30	41
	% within enterprise ownership	2.4%	24.4%	73.2%	100.0%
	% within Q2.4	2.5%	17.5%	19.0%	16.1%
Private	Count	2	2	8	12
	% within enterprise ownership	16.7%	16.7%	66.7%	100.0%
	% within Q2.4	5.0%	3.5%	5.1%	4.7%
Total	Count	40	57	158	255
	% within enterprise ownership	15.7%	22.4%	62.0%	100.0%
	% within Q2.4	100.0%	100.0%	100.0%	100.0%

a) 3 cells (20.0%) have expected count less than 5.

b) *Chi-square* 9.665 df 8; Sig. 0.289

*Q2.4 is the best describes the status of marketing.

Table 7-18 Cross-Tabulation of Enterprise Ownership and Orientation

Enterprise ownership	Q3.2	Non-marketing orientation	Marketing orientation	Total
State-owned	Count	52	63	115
	% within enterprise ownership	45.2%	54.8%	100.0%
	% within Q3.2	47.7%	48.8%	48.3%
	% of Total	21.8%	26.5%	48.3%
Collective	Count	20	29	49
	% within enterprise ownership	40.8%	59.2%	100.0%
	% within Q3.2	18.3%	22.5%	20.6%
	% of Total	8.4%	12.2%	20.6%
Township-village	Count	13	12	25
	% within enterprise ownership	52.0%	48.0%	100.0%
	% within Q3.2	11.9%	9.3%	10.5%
	% of Total	5.5%	5.0%	10.5%
Joint venture	Count	20	18	38
	% within enterprise ownership	52.6%	47.4%	100.0%
	% within Q3.2	18.3%	14.0%	16.0%
	% of Total	8.4%	7.6%	16.0%
Private	Count	4	7	11
	% within enterprise ownership	36.4%	63.6%	100.0%
	% within Q3.2	3.7%	5.4%	4.6%
	% of Total	1.7%	2.9%	4.6%
Total	Count	109	129	238
	% within enterprise ownership	45.8%	54.2%	100.0%
	% within Q3.2	100.0%	100.0%	100.0%
	% of Total	45.8%	54.2%	100.0%

a) 0 cells (0.0%) have expected count less than 5.

b) *Chi-square* 2.002; df 4; Sig. 0.735

- Non-Marketing orientation: Production orientation and sale orientation

The results of the World Bank Enterprise Surveys (World Bank, 1992) indicate that since economic reform, township and village enterprises have enjoyed considerably higher production, sales and pricing autonomy than state-owned enterprises (Jefferson and Singh, 1999:44). This research do not consists with above findings. Obviously, all types of Chinese enterprises have been given autonomy in decision-

making since economic reform. We would therefore expect all types of enterprises to be geared towards marketing and marketing orientation. In addition, their behaviour should be more sensitive to changes in the market environment.

7.4 SUMMARY

This chapter commenced with cluster analysis. Using factors in each of the four groups as entry variables for cluster analysis, the 260 cases were grouped into different clusters. Names were given to the clusters based on their characteristics. Each group of factors was divided into two major clusters: strong and weak (Tables 7-1 to 7-4). Three statistical methods -- the *Student's-t* test, the split-half analysis and discriminant analysis -- were used to validate the cluster results. This showed that the cluster results in this research have a high level of validity.

In the clusters of the marketing department, the most significant difference is the position of the marketing department between the two clusters. The enterprises in the strong cluster have marketing departments which play important roles in the enterprises' strategic planning and have close relationships among other functions. Most importantly, strong cluster enterprises exhibit positive marketing behaviour. In the clusters of marketing competitiveness, enterprises can be in either the weak competitiveness cluster or the strong competitiveness cluster. All of them consider that competition is not fair and that relationships (no-deal-relations) are important in marketing. There are also differences between the two clusters in terms of government control. Enterprises of strong cluster are more controlled by government in sales and finance areas than enterprises of weak cluster.

Based on the four groups of clusters, *Chi-square* tests were then used to conduct hypotheses tests. This analysis has tested these hypotheses according to values obtained from the *Chi-square* tests. The expectation of the research is that there are interactions between the marketing department, competitiveness, marketing

activities, government control and the ownership of the enterprise (H1, H2 and H3). Furthermore, it is expected that this will be reflected in the attitudes and behaviour of enterprises towards marketing and marketing orientation (H4 and H5).

The test results show that hypothesis H1 (enterprises with a strong marketing department will pursue strong marketing activities than enterprises with a weak marketing) is rejected. Hypothesis H2 (enterprises with strong marketing activities will have a stronger marketing competitiveness than enterprises with weak marketing) is rejected. H3 (enterprises with strong marketing activities are weak government-controlled than enterprises with weak marketing) is rejected. Hypothesis H4 (enterprises which are weak government-controlled are more likely to adopt a marketing orientation than enterprises subject to strong government controlled) is rejected. Finally, Hypothesis H5 (state-owned enterprises have a weaker marketing orientation than township-village and private) is rejected. These results show that Chinese enterprise's marketing behaviour is affected by multiple factors. Most importantly, even if an enterprise has a strong marketing department, this does not guarantee that the enterprise has strong marketing activities. Those activities are also affected by the different orientation of enterprise and enterprise's competitiveness. Similarly, strong marketing activities do not guarantee that enterprises exhibit strong competitiveness. After two decades of economic reform, the influences of government and the enterprise's structure of ownership on the enterprise's attitude toward marketing orientation have weakened. The attitude of most enterprises, whether they are state-owned or township-village enterprises, is moving towards a marketing orientation. There is clear evidence that they want to accept the marketing concept and adopt a marketing orientation.

8 DISCUSSION OF CHINESE ENTERPRISES' MARKETING BEHAVIOUR

- 8.1 *Introduction*
- 8.2 *The Marketing Department and Marketing Activities*
- 8.3 *Marketing Activities and Marketing Competitiveness*
- 8.4 *The Impact of Government Control*
- 8.5 *The Marketing Concept and Marketing Orientation in Chinese Enterprises*
- 8.6 *Western Marketing Strategy and Chinese Marketing Practice*
- 8.7 *Summary*

8.1 INTRODUCTION

In Chapters 5, 6 and 7, a number of statistical methods were used to test the research hypotheses presented in Chapter 1, which relate to Chinese enterprises' marketing behaviour. Chapter 5 was concerned with the individual variables and how each was distributed in the data set. It examined the hypotheses by means of frequency tables of responses to the various questions in the questionnaire in order to identify any significant associations between these responses and marketing activities, the marketing department, competitiveness, government control, enterprise ownership, and marketing orientation, based on the individual variables. In Chapter 6, using Pearson's correlation analysis, 78 variables were selected for factor analysis on the basis of high correlation coefficients. Then, 25 factors were extracted from the factor analysis to summarise the information in a large number of observed variables by a new and smaller set of variables that are useful substitutes for the original variables in the cluster analysis. Chapter 7 conducted a cluster analysis to identify similar groups within the data set. The profiles of each cluster were further explored to reveal characteristics of each individual cluster. Subsequently, the *Chi-square* test was used to examine the research hypotheses in order to determine whether responses differed significantly by the marketing department, marketing activities, competitiveness, government control, enterprise

ownership and marketing orientation. The research hypotheses are listed in Table 8-1.

Table 8-1 Research Hypotheses

H1	Enterprises with a strong marketing department will pursue strong marketing activities than enterprises with a weak marketing department.
H2	Enterprises with strong marketing activities will have a stronger marketing competitiveness than enterprises with weak marketing activities.
H3	Enterprises with strong marketing activities are weak government-controlled than enterprises with weak marketing activities.
H4	Enterprises that are weak government-controlled are more likely to adopt a marketing orientation than enterprises subject to strong government controlled.
H5	State-owned enterprises have a weaker marketing orientation than township-village and private enterprises.
H6	There is likely to be confusion between the marketing concept and the selling concept in Chinese enterprises.
H7	The marketing concept, marketing strategy from Western context have to be to adopted China's distinctive characteristics (<i>guoqing</i>).

Based on these statistical analyses, further discussions of the hypotheses are presented in this chapter. Section 8.2 discusses the link between the marketing department and marketing activities. The relationship between marketing activities and marketing competitiveness is elaborated in Section 8.3. The relationship between marketing activities and government control is analysed in Section 8.4. Two hypotheses related to the marketing concept and marketing orientation in Chinese enterprises are discussed in Section 8.5. Finally, the last hypothesis -- concerning Western marketing strategy and Chinese marketing practice -- is considered in Section 8.6. All the discussions explore the factors that influence enterprises' marketing behaviour. In particular, it is concluded that the role of

government and the impact of enterprise ownership are not very important in shaping the enterprise's attitude towards marketing orientation. The discussions also explain the applicability of the Western marketing concept in China. These discussions provide some further explanations of Chinese enterprises' marketing behaviour.

8.2 THE MARKETING DEPARTMENT AND MARKETING ACTIVITIES

Hypothesis H1: Enterprises with a strong marketing department will pursue strong marketing activities than enterprises with a weak marketing department.

In Chapter 7, all enterprises in the study were clustered into two groups respectively according to the criteria of the marketing department and marketing activities. The groups were named respectively "strong marketing department" and "weak marketing department", and "strong marketing activities" and "weak marketing activities"

A strong marketing department has the following characteristics: (1) a strong status compared with sales and other functional departments; (2) good co-operation with other functional departments; and (3) an important role in determining the enterprise's strategic plan. Strong marketing activities include: (1) a focus on comprehensive marketing mix strategies; (2) conducting marketing research (with or without external agents); (3) developing a successful marketing plan to guide the enterprise's marketing practice; and (4) making a great effort to satisfy customers' needs (see Section 7.2.2.2).

As explained in Chapter 7, marketing activities are directly related to the marketing department. Table 7-13 shows that 77% of firms in the "strong marketing

activities" group have a strong marketing department. However, in the "weak marketing activities" group there is an even higher rate (94.6%) of enterprises with a strong marketing department (see Table 7-13). Based on this evidence, it appears that there is no necessary relationship between a strong marketing department and strong marketing activities in Chinese enterprises. These results thus provide a basis for rejecting hypothesis H1: Enterprises with a strong marketing department will pursue strong marketing activities than enterprises with a weak marketing department.

The implication of this finding is that the establishment of a marketing department does not necessarily mean a full understanding of the marketing concept and the actual adoption of a marketing orientation. This becomes clearer if we consider how an enterprise typically established its marketing department. After the planned economy came to an end, enterprises suddenly faced a new situation in which the Chinese government began to recognise the reality of market forces. In this regard, the government reduced its control of the enterprises' operations. At the same time, Chinese consumers were beginning to demand better quality products with better service, and hence a buyer's market began to emerge. Consequently, Chinese enterprises had to look beyond state planning for alternatives to stay profitable and competitive (Deng and Dart, 1995: 8). As a result, enterprises' first reaction (from 1978) was to set up a marketing department to adapt to the new and dynamic environment, develop marketing strategies, and monitor marketing activities.

However, many enterprises' marketing departments in fact were little more than sales departments or were only playing the role of a sales department – in other words, only the name had changed. They tended to use a push strategy to sell what they had produced, or produced what sold best in the market, rather than marketing to meet customers' needs. The marketing concept was thus confused with the selling concept. Their attitudes and behaviour were only keen on competing in the existing products and market. Little effort was made to develop new products and

markets. Enterprises also placed much emphasis on heavy personal selling, advertising and the product's price, but less on marketing research and strategic marketing planning. Under these circumstances, the marketing activities carried out by the enterprises with strong marketing departments became narrow or myopic activities. This shows that enterprises with strong marketing departments cannot guarantee strong marketing activities.

8.3 MARKETING ACTIVITIES AND MARKETING COMPETITIVENESS

Hypothesis H2: Enterprises with strong marketing activities will have a stronger marketing competitiveness than enterprises with weak marketing activities.

The relationship between marketing activities and marketing competitiveness was analysed in Section 7.3. As with marketing activities and the marketing department, marketing competitiveness was clustered into two groups: "strong marketing competitiveness" and "weak marketing competitiveness". "Strong marketing competitiveness" means that (1) an enterprise has a good knowledge of its customers, market and competitors; and (2) its products have strong competitiveness in the market.

As Table 7-14 reveals, there is no statistically significant relationship between positive marketing activities and strong marketing competitiveness. Interestingly, in the "strong marketing activities" group, only 38.0% of enterprises consider that they have "strong marketing competitiveness" and 62.0% have "weak marketing competitiveness" (see Table 7-14). This indicates that although some Chinese enterprises have "strong marketing activities", they are also likely to have "weak marketing competitiveness". Thus, hypothesis H2 is rejected.

However, hypothesis H2 can be examined in the reverse way by looking at how the enterprises with “strong” and “weak” marketing activities are distributed in the “strong marketing competitiveness” group. Table 7-14 showed that 30.4% of the enterprises in the ‘strong marketing competitiveness’ group fall within the “strong marketing activities” group and 69.6% are categorised as having “weak marketing activities”. It can thus be seen that enterprises in the “strong marketing activities” group seem to have a less satisfactory performance in marketing competition than the “weak marketing activities” group.

The above results indicate the existence of unfair marketing competition in China. Unfair marketing competition is caused by many factors such as “duplication” and the existence of a ‘grey market’¹. It may place enterprises in a disadvantageous position even if they have carried out strong marketing activities. In fact, a direct question (4.9) concerning this issue was in the questionnaire. In response, 50% of the respondent firms stated that marketing competition is not fair between these enterprises.

In this unfair competitive environment, the “weak marketing activities” group of enterprises can use simple strategies to overcome the problems and improve their performance. For example, when a new product with a promising market future has been developed and introduced to the market by an enterprise within the “strong marketing activities” group, some enterprises in the “weak marketing activities” group can duplicate the idea and capture the market without spending an excessive amount of money and time on developing the product and the market. Because of these low-cost activities, they can afford to reduce the selling price in order to gain a competitive advantage.

¹ A grey market means that the market operates quasi-legally, but outside the bounds of China’s licensing system and beyond the reach of judicial management (Luk, 1998: 64).

China's first legislation dealing with unfair competition (the *Anti-Unfair Competition Law*) was introduced in December 1993, but it has been poorly and unevenly enforced in practice (China Economic and Trade Commission, 1999: 12). Thus, unfair competition still exists. For these reasons, it is not surprising that some enterprises exhibiting strong marketing activities still have the status of weak marketing competition.

8.4 THE IMPACT OF GOVERNMENT CONTROL

Hypothesis: Enterprises with strong marketing activities are weak government-controlled than enterprises with weak marketing activities.

Hypothesis: Enterprises which are weak government-controlled are more likely to adopt a marketing orientation than enterprises subject to strong government controlled.

In this section, hypotheses H3 and H4, dealing with government control, are discussed. In each case, the hypothesis is rejected on the basis of statistical analysis.

Enterprises were categorised into two groups: "strong government control" and "weak government control". The latter term means that the enterprise has weak government control of the enterprise's production, price, sales, channels, finance etc. In other words, the enterprise has more autonomy in respect of marketing.

Table 7-15 (for hypothesis H3) shows that in the "strong marketing activities" group, 64.5% of enterprises have weak government control and 35.5% have strong government control. Thus, it seems that hypothesis H3 is supported. However, in the "strong government control" group, 51.3% of enterprises consider themselves to have "strong marketing activities", while the figure is 48.7% for the "weak marketing activities" group. These findings indicate that in both the "strong

marketing activities" and "weak marketing activities" groups, most enterprises are subject to weak control by the government.

Table 7-15 also shows that out of a total of 256 cases, 180 enterprises claim that they are under weak government control, while only 76 enterprises state that they are under strong government control. So, hypothesis H3 is rejected.

Table 7-16 shows that in the "weak government control" group, 55.3% of the enterprises consider themselves as having a marketing orientation. However, the figure is 52.2% for the "strong government control" group. Thus, there is no significant difference between the two groups. The results indicate that all enterprises, whatever group they belong to, have a tendency to adopt a more focused marketing orientation. Hypothesis H4 is thus rejected, as discussed in Section 7.3.3.

It is interesting to compare this finding with the previous research conducted by Liu in 1991 (Liu: 1991:176). Liu concluded that direct control by the government was strong in relation to price, supply and product. In his survey, over 60% of respondents' major products were subjected to pricing control. In contrast, the present research shows that only 23% (Q5.7.1) and 21% (Q5.6.3) of respondents state that their products, prices and supply are controlled by the government. Over 70% of responding enterprises state that they are in the "weak government control" group (see Table 7-16). These statistical results indicate that the level of government control has declined since Liu conducted his study in 1991. In fact, during the last decade the Chinese government has withdrawn controls on many marketing activities, such as marketing planning, production, price, and distribution channels, in relation to both state-owned and non-state-owned enterprises. Enterprises have thus gained autonomy. Moreover, enterprises with strong government control often want to loosen this control. Therefore, the attitudes of

both groups of enterprises (strong and weak government control) are focused on marketing orientation. This explains why H4 is rejected.

8.5 THE MARKETING CONCEPT AND MARKETING ORIENTATION IN CHINESE ENTERPRISES

8.5.1 ATTITUDES TOWARDS MARKETING ORIENTATION

Hypothesis H5: State-owned enterprises have a weaker marketing orientation than township-village and private enterprises.

Two analyses were used to test this hypothesis. One was discussed in Section 5.4.1. Q3.2 asked about the kind of enterprise orientation that was being formed. There were three possible choices: production orientation, selling orientation and market orientation. Table 5-19 gives the distribution of the three orientations by enterprise ownership. It shows that the three orientations have similar distributions for all six forms of ownership.

The second analysis is presented Tables 7-17 and 7-18. Table 7-17 is concerned with how enterprises wish to describe the status of marketing in their own cases. Three criteria were offered: marketing is really non-existent; marketing is what sales and marketing departments do; marketing is seen as a guiding philosophy. 55.3%, 67.3%, 63%, 73.2% and 66.7% of state-owned, collective, township-village, joint venture and private enterprises respectively state that marketing is seen as a guiding philosophy of the enterprise. The *Chi-square* at 9.665 has a significance level of 0.289, which is above the 0.05 decision criterion. For Table 7-18 the *Chi-square* is at 2.002 with a significance level of 0.735. This is larger than the critical decision level of 0.05. Hence, the distribution shows no difference or influence. Both significance levels are higher than 0.05, which is the decision criterion, so hypothesis H5 is rejected.

Does ownership matter? The context of hypothesis 5 comes from the history of the planned economy in China. As mentioned in Chapter 3, under the planned economic system, "state-owned enterprises played a dominant role in China's economy, leaving little room for collective enterprises and virtually excluding private and other types of enterprises. Chinese government denied the efficacy of marketing in its economic doctrine" (Deng and Dart 1995: 7). The state-owned enterprise took all its orders from the state in the form of planned assignments. These determined the type and quantity of the products to be produced. The necessary funds, equipment and raw materials for the enterprise's economic operation were allocated entirely by the state, which also took over all of the enterprise's profits and covered all losses. All products produced by the enterprise were subjected to monopoly purchasing and allocation by the state (Gordon, 1991; Mun, 1984; Zhuang and Whitehill, 1989). In general, marketing decisions, such as what to produce, what prices to charge and what channels to use, were made entirely by government. The Chinese marketing managers had no control over the marketing mix decisions (Holton, 1985; Mahatoo, 1990). In this environment, marketing or marketing orientation was not important for state-owned enterprises as well as other type of enterprises if they were existed.

The narrowing difference between state-owned and other types of enterprises is a result of major changes led by the government's reduction of support for state-owned enterprises. The government's support to state-owned enterprise has gradually reduced during the reforms. Most state-owned enterprises are now responsible for their own profit or loss. They are now involved in marketing because they are no longer allocated production inputs assigned to prearranged buyers, and they face pressures from other types of enterprises and the market. Also, with the emergence of a buyer's market, state-owned enterprises face the same situations as other types of enterprise. They have to try to use effective marketing strategies in quick response to market signals in order to survive.

Township-village and private enterprises receive very little government support for their operations, and their products are directed towards local markets. They are facing increased competition from state-owned enterprises, which have better resources and technologies (Smyth, 1999: 203). Therefore, their attitudes are moving towards marketing. In addition, due to their limited resources and lack of technical expertise, some township-village and private enterprises cannot capture the benefits of certain marketing activities, such as marketing research. They can only produce low standard products (Cao *et al.*, 1997: 35-37) or copy some ideas from other types of enterprises. Thus, they have to use active advertising and attractive packaging to compete with well-established product owners. Therefore, township-village and private enterprises focus explicitly on flexible promotions.

8.5.2 THE MARKETING CONCEPT AND SELLING CONCEPT IN CHINESE ENTERPRISES

Hypothesis H6: There is likely to be confusion between the marketing concept and the selling concept in Chinese enterprises.

Hypothesis H6 was tested in Chapter 5 by Q2.1, Q3.23 and Q3.24. The results support hypothesis H6. Evidence can be found in the answers to the question on “the definition of marketing”. In Q2.1, enterprises were asked, “What is the definition of marketing?”. Only 46% of the 260 respondents answered this question. The responses were grouped into six categories:

- Marketing is a process through which the products of enterprise are delivered to customers.
- Marketing means that the enterprises themselves rarely sell their own products in the marketplace.
- Marketing means the measures through which the products of enterprises are promoted to the customers.

- Marketing is an economic activity.
- Marketing means that enterprises provide products of high quality and low cost to satisfy customers and market needs.
- Marketing is the sum total of R&D, sales, advertising and marketing research.

(see Table 5-10 in Section 5.3.1).

In response to Q2.1, most respondents offer a definition of marketing that involves the products of the enterprise, i.e. "Marketing is a process through which the products of enterprise are delivered to customers", "Marketing means that the enterprises themselves rarely sell their own products in the marketplace", and "Marketing means that enterprises provide products of high quality and low cost to satisfy customers and market needs", etc. None of these definitions matches the usual definition of marketing found in current Western marketing textbooks (e.g. Dibb *et al.*, 2001; Armstrong and Kotler, 2000).

Q3.23 and Q3.24 (see Section 5.4.4) asked about the future objectives of enterprises and their order of importance. The top three responses were "increasing sales force and turnover", "launching a famous brand" and "developing new products (see Table 5-33).

These results suggest two implications. First, they prove that Chinese enterprises accept that "the simple premise of marketing is that to be successful. Any organisation must understand its customers' requirements and satisfy them in a manner that gives the organisation an edge over its competitors" (Dibb, Simkin *et al.*, 1997: 1). They also see marketing as a guiding philosophy for the whole enterprise. However, the selling concept and marketing concept are sometimes confused. Armstrong and Kotler (2000: 19) point out that "the selling concept starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. In contrast, the marketing concept

starts with a well-defined market, focuses on customer needs, coordinates all the marketing activities affecting customers, and makes profits by creating long-term customer relationships based on customer value and satisfaction". Due to this common misunderstanding of the marketing concept, Chinese enterprises' marketing activities start with the enterprise's products (at the enterprise's end) in the enterprises' marketing activities. They do not commence with the customers or markets. They emphasise "how to transfer products to customers". In fact, marketing acts as a tool for the enterprises' operations. This implies that the misunderstanding between the marketing concept and the selling concept is strong in Chinese enterprises.

Secondly, there is another confusion in the Chinese enterprises' understanding of the marketing concept. Firms have set up marketing departments to look after the marketing plan, advertising, promotion and marketing research, but they have also strengthened their sales departments in order to sell products and develop after-sales services. As Doyle and Wong observe, "the popular discussion of marketing has been bedevilled by a confusion between marketing as a functional activity and marketing as an organisation-wide approach" (Doyle and Wong, 1998). Most Chinese enterprises seem to see marketing primarily as a functional activity because they conduct strong marketing activities. Therefore they have either a customer orientation or marketing orientation. In fact, nearly half of the responding enterprises placed an emphasis on production, advertising and sales promotion to meet their sales targets. They believe that the most important marketing activities are advertising and personal selling.

Chinese enterprises have thus only partially accepted the marketing concept. The development of Chinese enterprises' orientation goes through different stages: some enterprises are at the stage of sales orientation, while others are at the stage of marketing orientation, and others are still at the stage of a production orientation. Some enterprises exhibit the features of both a marketing orientation and a sales

orientation. Marketing practices in Chinese enterprises are thus still limited in their application. It will take a considerable time for Chinese enterprises to fully digest the various elements of marketing. Obviously, the “adoption of the marketing philosophy takes time, resources, endurance and commitment” (Dibb *et al.*, 2001: 16). This clearly supports hypothesis H6.

8.6 THE WESTERN MARKETING CONCEPT AND CHINESE MARKETING PRACTICE

Hypothesis H7: The marketing concept, marketing strategy from Western context have to be to adopted China's distinctive characteristics (guoqing).

Q2.3 was designed for this hypothesis. Table 5-12 shows that up to 78.1% of the total respondents see the Western marketing concept and Western marketing strategies to be “suitable”, “moderately suitable” or “partly suitable for Chinese enterprises. The distribution of answers to Q2.3 shows that out of a total of 260 valid responses, 1.2% answer “very suitable”, 21.9% “suitable”, 17.7% “moderately suitable”, 38.5% “partly suitable”, 5% “not suitable” and 15.8% “don't know”. Thus, the most popular answer is “partly suitable”.

The results indicate that China is currently undergoing a transformation from a planned economy to a market-oriented economy. As Joy (1990) and Deng (1995) point out, despite reforms China is not a typical market economy yet. The lack of an infrastructure to promote the dissemination of information, products and people presents a formidable obstacle. The cultural preference for personal rather than contractual relations has inhibited the growth of a market economy (Lockett, 1988). Business people need to give great attention to the formation of personal relationships. Therefore, the Western marketing concept and Western marketing

strategies require modifications if they are to be successfully employed in China. Hypothesis H7 is thus supported.

The marketing concept as "an obvious and sensible approach to running a business" (Dibb and Simkin *et al.*, 1994: 12) has been developed gradually during the past century in Western countries. Moreover, many marketing strategies have been developed since the introduction of the marketing concept under the conditions of a mature and high-level buyer's market. Western enterprises have developed under the same conditions (Ye, 1998: 155; Yan, 1999: 37). There are many experiences, which involve the successful deployment of marketing strategies in enterprises' marketing activities. The marketing activities are methodically and systematically conducted in western countries.

By contrast, in China the adoption of marketing by enterprises has been much more recent (only during the last 20 years). Progress had been made in both attitudes and activities, but there have also been many problems. For instance, a high-level buyer's market has not yet been formed (Ye 1998: 155). It is therefore unreasonable to assume that all Western marketing strategies can yet be implemented without modification in China, given the country's unique conditions and distinctive cultural features. The marketing in Chinese enterprises has such as features due to following reasons.

First, China has conducted the so-called "open door" policy and is gradually moving from a planned economy (command economy) to a market-oriented economy. Although Chinese enterprises have introduced the marketing concept to their activities, the old management philosophy stemming from a planned economy still prevails. Top managers from the days of the planned economy and the new generation of top managers are mixed together in this transitional system. As a result, their business philosophy has not yet completely embraced the marketing concept, and their understanding of the marketing concept is rather weak and

partial. Owing to the influence of traditional enterprise practices, the legacy of the planned economy, and the limitations of the economic environment, many enterprises are used to some control by government, because that control is actually seen by enterprises to be beneficial. For example, if there is no competitive advantages in their products or services, but there are marketing competitive pressures, they feel that the involvement of the government is essential. This explains why many enterprises partially accept the marketing orientation but is also reluctant to lose all government control.

Secondly, the traditional Chinese business culture still influences Chinese enterprises' perception of the Western marketing concept and Western marketing strategies. The cultural preference for personal rather than contractual relations has inhibited the growth of a market economy (Lockett, 1988). There is a non-deal-relationship (*fei jiaoyi guanxi*) in Chinese enterprises' marketing activities. This relationship is a special term to describe a relationship (*guanxi*) between two parties, which is not a business relationship but a kind of friendship. The non-deal-relationship may originate from family ties or other prior non-business relationships (*guanxi*). It has no group connotation and its bonds are personal rather than inter-group or inter-organisational (Fock and Woo, 1998: 35). In fact, this friendship might be built for a long-term business purpose, as Yeung and Tung (1996) point out. These authors reviewed the concept of *guanxi* in the context of Chinese culture and defined *guanxi* as a "connection" that allows transactions or exchanges designed to achieve mutual benefits. This is one of the most important China's distinctive characteristics (*guo qing*).

Interestingly, in Western countries, relationship marketing has emerged only during the last decade (Morgan and Hunt, 1994; Buttle, 1996). This also stresses the importance of managing the long-termed relationships between the customer and the seller. The difference is that in Chinese enterprises' marketing practice, more importance is attached to personal relationships (*guanxi*) as opposed to the

specification and enforcement of contracts (Davies *et al.*, 1995). Chinese enterprises place great emphasis on knowing their domestic or foreign business partners personally. They prefer to set up a non-deal-relationship and stress “dealing with people and companies in whom they have confidence, or with whom they have had satisfactory business relations in the past” (Deng and Zhao, 1995: 43).

Thirdly, many Chinese enterprises emphasise short-term results, while some marketing strategies and promotion methods, such as customer surveys and marketing research, may require large budgets and a long-term perspective. The lag between investing and results causes enterprises to hesitate to employ some marketing strategies. For example, some enterprises feel that they can promote their products simply by cutting prices rather than investigating and meeting customers' need, identifying competitors' strategies or carrying out large advertising campaigns.

In response to this situation, it is clear that Chinese enterprises and international marketers need to consider China's distinctive characteristics – including cultural traditions -- when employing the marketing concept and marketing strategies that were originally developed in the Western context.

8.7 SUMMARY

In this chapter, all of the hypotheses which were examined in Chapters 5, 6 and 7 have been discussed. In order to present a clear picture, the hypotheses and the results of the tests are summarised below.

- Hypothesis H1 (Enterprises with a strong marketing department will pursue strong marketing activities than enterprises with a weak marketing department) is rejected.

- Hypothesis H2 (Enterprises with strong marketing activities will have a stronger marketing competitiveness than enterprises with weak marketing) is rejected.
- Hypothesis H3 (Enterprises with strong marketing activities are weak government-controlled than enterprises with weak marketing activities) is rejected.
- Hypothesis H4 (Enterprises which are weak government-controlled are more likely to adopt a marketing orientation than enterprises subject to strong government controlled) is rejected.
- Hypothesis H5 (State-owned enterprises have a weaker marketing orientation than township-village and private enterprises) is rejected.
- Hypothesis H6 (There is likely to be confusion between the marketing concept and the selling concept in Chinese enterprises) is supported.
- Hypothesis H7 (The marketing concept, marketing strategy from Western context have to be to adopted China's distinctive characteristics (*guoqing*)) is supported.

Together, the seven hypotheses involve five aspects which relate to marketing behaviour. H1 and H2 are connected with the marketing department and its competitiveness. H3 and H4 are linked to government control. H5 examines the issue of enterprise ownership. The marketing concept and marketing orientation are examined by H4 and H6. Finally, H7 deals with the inevitability of adapting the Western marketing concept. The following discussion is focused on these five aspects.

The Marketing Department and Marketing Competitiveness. Although most enterprises have a marketing department which assumes responsibility for developing their marketing strategies and monitoring their day-to-day marketing

activities, the establishment of a marketing department does not necessarily signify the full understanding of the marketing concept and orientation. Enterprises have a special interest in tactical marketing issues such as effective personal selling, attractive advertising and well-known brands. Less attention is paid to strategic issues. Enterprises are not very interested in spending time and money on marketing research and strategic marketing planning, but they are keen on spending money on advertising and personal selling. The marketing department is one of the factors that can affect the enterprises' marketing behaviour.

Due to the existence of unfair competition, especially the existence of duplicated products or imitations, there is no guarantee of strong marketing competitiveness for these enterprises which have spent much time and money in the development of new products and employed marketing mix strategies to introduce those products to the market. Those products with good potential will be imitated in a very short time. One explanation for these results is that there might be significant benefits flowing from such imitations in the current stages of development of the market economy. Therefore, enterprises with positive marketing activities cannot guarantee strong marketing competitiveness in this situation.

Government Control. Less government control means that enterprises have more autonomy and have to face the challenge of a complex and rapidly changing market. The research indicates that government control of the marketing activities of enterprises has been reduced dramatically. With less government control, enterprises' marketing activities may be strong or weak. Although government control is an important factor in affecting the enterprises' marketing behaviour, it is not the only factor. Other factors are also important, such as the extent to which the marketing concept and market orientation are adopted, and the intensity of marketing competition.

Enterprise Ownership. Along with economic reform and the emergence of a buyers' market, all types of enterprises are motivated towards marketing. Many enterprises (both state-owned and township-village) believe that they have adopted the marketing concept. The research indicates that most enterprises, no matter what kind of ownership they have, see marketing as a guiding philosophy for the whole enterprise (Table 7-18). It also shows that there is no clear or distinct relationship between the enterprises' ownership and marketing orientation.

The Marketing Concept and Marketing Orientation. The research proves that although Chinese enterprises consider marketing as a guiding philosophy for the whole enterprise, the starting point of their marketing activities is a consideration of the enterprise's products. Our study shows that Chinese enterprises experience some confusion in trying to understand the marketing concept. This explains why many surveyed enterprises consider that they have conducted positive marketing activities, either with a customer orientation or a marketing orientation, but they still believe that the most important marketing activities are advertising and personal selling.

These findings indicate that Chinese enterprises have only partially accepted the marketing concept. The stage of development of a marketing orientation in Chinese enterprises varies. Some enterprises are still at the stage of a sales orientation; some think of themselves as at the stage of a marketing orientation; some are still at the era of a production orientation. A number of enterprises have a mixture of several features of a marketing orientation as well as a sales orientation.

The Western Marketing Concept. This research confirms empirically that although the Western marketing concept has been developed for over one hundred years with many successful experiences of marketing strategies applied to enterprises' marketing activities, it has to be modified in China if its benefits are to be realised. This is due to China's distinctive characteristics (*guo qing*), such as the

existence of unfair competition, the existence of imitation products, and the importance attached to personal relationships (*guanxi*).

These themes are discussed further in the next chapter, which draws together the major conclusions of the research, summarises the research implications and research limitations, and offers suggestions for further research.

9 CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

- 9.1** *Introduction*
- 9.2** *Conclusions*
- 9.3** *Research Implications*
- 9.4** *Practical Implications*
- 9.5** *Limitations of the Study*
- 9.6** *Further Research*
- 9.7** *Peroration*

9.1 INTRODUCTION

Chapter 1 explained that the purpose of this research is to focus on Chinese industrial enterprises' marketing behaviour (activity), i.e. marketing practice at the enterprise level. The research examines a number of issues related to Chinese enterprises' application of the marketing concept and their marketing behaviour under the impact of economic reform, with particular reference to the enterprise's marketing department, marketing activities, marketing competitiveness, government control, structure of ownership, and marketing orientation. This chapter begins by discussing the major conclusions of the research and their implications. The methodological limitations of the research and suggestions for the further research are then considered.

9.2 CONCLUSIONS

A number of studies have touched on issues relating to marketing practices in China. This research is focused on the micro-level of Chinese industrial enterprises' marketing behaviour. It addresses the associations between marketing orientation and marketing activities, the marketing department, marketing competitiveness, government control, and the enterprise's structure of ownership. It explores various

characteristics of marketing behaviour in the industrial sector in China in order to determine the current status of marketing.

The research is based on interviews and a questionnaire survey of Chinese enterprises' marketing behaviour in China conducted during 1996-1997. Based on the survey data, seven hypotheses were examined, and these were discussed in Chapters 5, 6, 7 and 8, as illustrated in Figure 9.1.

It is interesting to note that five out of the seven hypotheses are rejected in this research. Only the other two hypotheses are consistent with the findings of previous research. The results of this study reveal a fundamental aspect of Chinese enterprises' marketing behaviour. They show that in the context of China's transitional business environment, Chinese enterprises' behaviour is becoming increasingly market-oriented. Because China is now a rapidly changing society, the results of the present research inevitable differ from those of studies that used old data. The present findings develop a new line of thinking for research into Chinese enterprises. They may also assist Western companies seeking to gain a share of China's growing market. In particular, Western companies must be able to deal with the different types of Chinese enterprise, including state-owned enterprises. Based on the tests of these hypotheses, several conclusions regarding Chinese enterprises' marketing behaviour can be detailed.

9.2.1 A STRONG MARKETING DEPARTMENT, INTENSE MARKETING COMPETITION AND REDUCED GOVERNMENT CONTROL IN ALL TYPES OF CHINESE ENTERPRISES

The key findings in this research present the current situation of Chinese industrial enterprises' marketing behaviour. They indicate that this behaviour is affected to a greater or lesser extent by a whole range of factors: government control, competitiveness, environmental conditions, the Western marketing concept, the

marketing department, and the structure of the enterprise's ownership. Among these factors, some remain integration impact.

With the reduced government control of enterprises and the growth of enterprises' autonomy, firms have established marketing departments to take responsibility for developing marketing strategies and monitoring day-to-day marketing activities. Providing the products for the market is a challenge for any enterprise. Marketing departments have certainly played a positive role in enterprises' marketing activities during the transition from a planned economy to a market-oriented economy. This can be seen as the embryonic stage of Chinese industrial enterprises' marketing behaviour.

With the growing intensity of marketing competition and the widespread confusion in the understanding of the marketing concept, few enterprises have undertaken marketing research studies to attempt to gain knowledge of their customers and competitors. Also, enterprises have not studied and formulated long-term strategic marketing plans, but have sought short-term profit. Expenditure on marketing research and advertising is in the ratio of about three to seven (Zhang, 1998: 21). More attention has been given to gathering information about competitors in terms of product design and price than to R&D for new products. Enterprises' marketing departments have neglected to exploit new products and new markets to satisfy customers' needs, but have preferred to compete in existing products and markets. In many areas, there has been persistent plagiarism. We can describe this marketing behaviour as "myopic" because it has caused intense marketing competition in the marketplace and has weakened the long-term competitiveness of many enterprises.

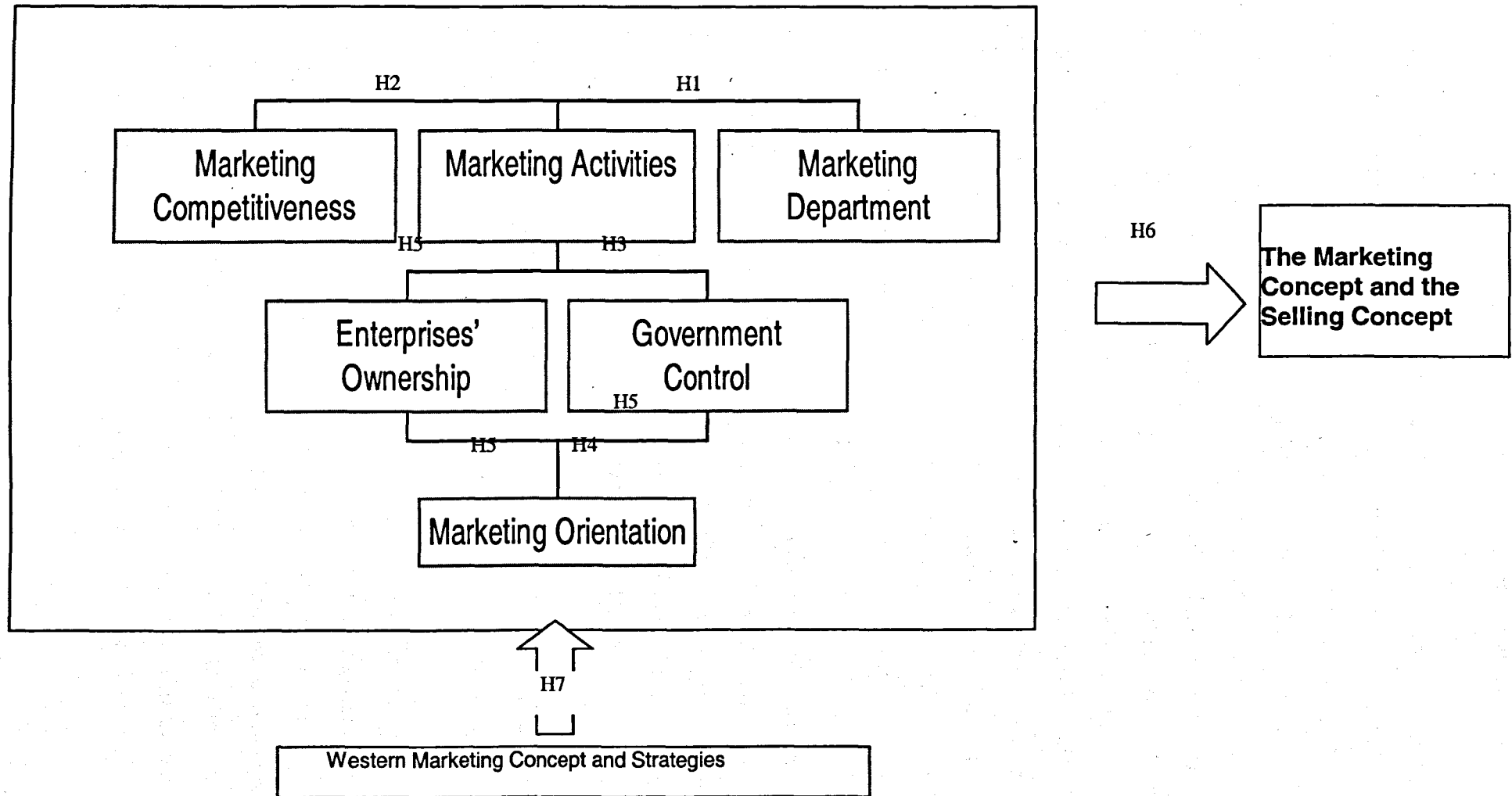


Figure 9.1 The Structure of the Research Hypotheses

Reduced government control of prices, increased enterprise decision-making rights and operation rights, and the entry of Western companies have all aggravated the tension of the marketing competition. This has caused some enterprises to feel nostalgic for the planned economy, especially those enterprises that were once protected by government policy, e.g. state-owned enterprises. However, enterprises have to face the challenge of all the changes caused by reduced government control. In order to survive this intense marketing competition, all types of enterprises have moved towards a marketing orientation, although their marketing behaviour still reflects the primacy of the selling concept. They have attempted to understand their own and their competitors' advantages and disadvantages, to learn from Western companies, to pay attention to the wants and needs of customers, and to combine the Western marketing concept and Western marketing strategies China's distinctive characteristics (*guoqing*).

The research shows that the type of ownership is not very significant in relation to the degree of government control and marketing orientation. It is interesting that the research results do not support a common assertion that the degree of government control and marketing orientation depend on enterprises ownership. In fact, all types of enterprise face a similar marketing environment in today's China.

9.2.2 THE INEVITABILITY OF ADOPTING THE WESTERN MARKETING CONCEPT

The Western marketing concept has developed over a long period time (a century), but in just 20 years China has attempted to replace a centrally planned command economy by a market-oriented economy through a series of major economic reforms. First, the "open door" policy opened China's coastal provinces to foreign trade, investment, new technologies and managerial initiatives. This also brought in the Western marketing concept and Western marketing strategies, and broadened Chinese industrial enterprises' vision. This study shows that the past 20 years have

witnessed a growing interest in the role of marketing in China. Many Chinese industrial enterprises (79.2%) state that the Western marketing concept is suitable or partly suitable for their marketing practice.

Secondly, as the reforms were based on macro-economic adjustment and macro-environment change, the major changes were in terms of the introduction of a market mechanism and a shift of operational decision-making from economic ministries to operational levels (enterprises). Together with the "open door" policy, this economic mechanism reform has created a radically new economic environment, intense competition within many products groups, and competitive pressures for all kinds of enterprises. These conditions have continuously forced Chinese industrial enterprises to adapt to the requirements of a modern market-oriented economy, and to adopt the Western marketing concept. Therefore, enterprises have the inevitability of adopting western marketing concept from the subjective and the objective respects.

Thirdly, the Western marketing concept and Western marketing strategies have made a major contribution to Western economic development as a management discipline. However, China has its own characteristics (*guoqing*), including unique cultural traditions, and Chinese industrial enterprises are undergoing a major transition from a planned economy to a market-oriented economy. The personal relationship (*guanxi*) is still important in the marketing practice. Accordingly, the direct employment of the Western marketing concept and Western marketing strategies into operational marketing practices does not fit the reality of China. Clearly, some modifications have to be made. As Livingstone (1987) observes "Marketing techniques are not textbook formulae or cookbook recipes, which could be applied indiscriminately to conditions anywhere". Western companies face a number of marketing-strategy design issues when marketing their products in China. Some marketing-mix strategies or competitive tools, such as promotional direct marketing, free trials, and "free gifts", are ineffective if they are not executed

properly. Western companies must carefully consider the distinctive characteristics of Chinese marketers' marketing behaviour before they enter the Chinese market.

9.2.3 THE MARKETING CONCEPT AND MARKETING ORIENTATION

The research results show that the marketing concept has only been partially adopted in China, while the selling concept remains strong. Faced with rapid change of the economic environment, Chinese industrial enterprises have to abandon the thinking associated with the planned economy and old operational formations and move in a new direction. The initial response of enterprises was the establishment of marketing departments or the expansion of sales departments. Enterprises realised that the increase of operational decision-making rights was itself increasing the pressures of marketing competition pressures. Thus, many enterprises' operations are no longer based on waiting (for state assignments in production plans and raw materials supply and purchase), relying (on the support of the state) and asking (for state subsidies), but now emphasise finding markets and customers in the new competitive market environment.

Although the adoption of the marketing concept is inevitable in China, the research proves that there is still a widespread misunderstanding of this concept. As a result, enterprises consider marketing as a guiding philosophy for the whole organisation, but at the same time most enterprises' marketing behaviour reflects the view that the core of marketing is sales, and that selling is the major means of increasing profit. Under these circumstances, marketing has been widely adopted as a tactical issue and functional activity but not as a strategic issue and organisation-wide approach.

9.2.4 SUMMARY OF CONCLUSIONS

In the last 20 years a market-oriented economy has emerged in China: the importance of marketing and markets has been recognized, a seller's market has been replaced by a buyer's market, and there has been the growth of international competition. The increased autonomy of firms has come in the form of a decreased role for government control, with a corresponding increase in economic activity responding to market pressures. These external changes have led to a transformation of enterprises' attitudes and behaviour towards marketing and marketing orientation. The purpose of this research is to investigate the factors that affect the marketing behaviour of Chinese enterprises in respect of the adoption of the marketing concept and marketing orientation in the context of the changing Chinese business environment.

The responses to the survey questionnaire indicate that government control of many aspects of marketing activities of enterprises has been greatly reduced, and that enterprises have gained much more autonomy in the production and marketing of products. On the other word, enterprises have to face a complex and changeable market environment. The reduction of government control has provided an essential condition for enterprises' adoption of the marketing concept and marketing orientation. However, firms have been slow to change because of the long tradition of a planned economy and the immaturity of market development. Moreover, they have continued to stress the importance of sales. Thus marketing activities have only been adopted to a limited extent.

The research does not find any clear differences between the various types of enterprise ownership in relation to enterprises' attitudes towards marketing orientation. This finding is surprising but indicates that under the impact of economic reform in China all types of enterprises are coming under increasing pressures to survive in conditions of intensifying market competition. This result is

not consistent with previous research findings such as those of Deng and Dart (1999) and Hay *et al.* (1994) because China's economy is experiencing a major transition that is now affecting enterprises with different types of enterprise structure. With China's market oriented economy is going to consummate, all types ownerships of enterprises will be toward marketing orientation.

Chinese enterprises have undergone a tremendous change in the past 20 years. Reduced government control, intense competition and an emerging buyer's market have forced all types of enterprises to employ the Western marketing concept and Western marketing strategies and to move towards a market orientation. However, Chinese enterprises continue to misunderstand the marketing concept and pursue myopic marketing activities. This shows that Chinese industrial enterprises' marketing behaviour is not as developed as China's market-oriented economy. Due to the distinct features (*quoqing*) of Chinese society, the Western marketing concept and Western marketing strategies have to be modified if they are to be used in China. To take an example, the French-owned Peugeot Company is a famous car manufacturer. Peugeot operates in 140 counties and has many production sites throughout the world. The company states that "It is this style, this robustness, this handling, comfort and performance that are the types of automobile pleasures that make up the Peugeot customer promise" (see www.peugeot.com). Peugeot sold 1.5 million cars in 1998. But Peugeot also experienced a loss of tens of millions of dollars in the Chinese market and was unable to secure a dominant position in China. After a 12 years stay in China, Peugeot had to exited the market (Yan, 1998: 73). This case indicates that a successful marketing strategy generated from Western countries is not necessarily suitable for the different cultural context of China.

9.3 RESEARCH IMPLICATIONS

A number of Western academics have pursued theoretical and interview-based studies of economic reform in China (Harrold, 1992; Blejer *et al.*, 1991; Harrold and R. Lall, 1993; Seng, Perkins and Dwight, 1988; Dic Lo, 1997; Nolan and Wang, 1999). However, there has been only limited survey research of Chinese industrial enterprises' marketing behaviour. This research therefore seeks to contribute to the literature in this area, thereby filling a major gap in our understanding. The research discusses the influences by economic reform and thereof the arising changes in the industrial enterprise orientation and operation from the aspects of enterprises' marketing department, marketing activities, marketing competitiveness and government control. It reviews Chinese industrial enterprises' marketing behaviour, which has to be sensitive to changes of a transitional.

9.3.1 THE INTERACTION OF THE ENTERPRISE'S INTERNAL AND EXTERNAL FACTORS

This research employed factor analysis to induce the main factors and cluster analysis to distinguish between strong and weak groups in terms of the key criteria: the marketing department, marketing activities, marketing competitiveness and government control. The *Chi-square* test and cross tabulation were then used to exhibit the relationship and interaction between the enterprise's marketing activities and marketing competitiveness, the marketing department, government control and marketing orientation.

The findings from this research can help Chinese industrial enterprises to understand better their competitive situation and the kind of marketing strategy they should employed to gain competitive advantage and achieve their objectives. It can also assist foreign companies in taking appropriate action to enter the Chinese

market. The findings reveal a growing use and understanding of marketing, but reveal also that marketing must be modified to reflect the distinctive conditions of Chinese society and culture. Marketing is still in its infancy in China.

9.3.2 DEVELOPING A NEW IDEA TO EXPLORE CHINESE INDUSTRIAL ENTERPRISES' MARKETING BEHAVIOUR

The finding that the structure of ownership does not appear to significantly affect the attitude of the enterprise towards marketing represents a significant contribution to the literature. It should help to develop of a new train of thought to explore Chinese industrial enterprises' marketing behaviour.

Most of the literature on Chinese industrial reform assumes that ownership has significant effects on enterprises' marketing behaviour. No previous research has suggested that the ownership type is not a major factor. Although there are clear differences between the "strong marketing activities" and "weak marketing activities" groups among Chinese industrial enterprises, the attitudes of all types of enterprise is towards support of the marketing concept and marketing orientation.

9.4 PRACTICAL IMPLICATIONS

This research presents the results of an empirical study of Chinese marketing behaviour in 820 enterprises located in seven provinces and two cities of China in 1996-97, and investigates a number of issues related to the application of the marketing concept and marketing orientation in Chinese enterprises. It presents a general picture of enterprises' marketing behaviour following economic reform. The findings of this research raise a number of practical implications for Chinese industrial practice, marketing in China and the further development of the global topic of marketing.

9.4.1 IMPLICATION FOR CHINESE INDUSTRIAL PRACTICE

Chinese economic reform represents a paradigm shift for Chinese industrial practice. Although this research is exploratory in nature, it does provide extensive information relating to the operation of all types of enterprises in modern China. As Liu (1991) and Deng and Dart (1999) found, there is evidence that the marketing practices of Chinese enterprises are reflective of the nature of the country's transitional economy. Chinese enterprises believe that the marketing concept is a guiding philosophy for their enterprises. Similarly, this study indicates that most enterprises (of all types) now find themselves increasingly involved in marketing because they are no longer allocated production inputs and raw materials by the government, nor are their outputs assigned to buyers. As the government relaxes controls, market competition is getting stronger. "The customer has become king". Furthermore, customer loyalty will become an increasingly important source of competitive advantage in this situation. Chinese enterprises are therefore attempting to implement known marketing strategies. Formal marketing planning will become an increasingly essential business practice (Deng and Dart, 1999) and will help to bridge the gap between the planned and market-oriented economies.

9.4.2 IMPLICATIONS FOR MARKETING IN CHINA

Economic reform has created a better environment for the adoption of the marketing concept. The improvement of the marketing environment provides useful conditions for enterprises to employ the modern marketing concept and marketing strategies. Marketing has the potential not only to improve business performance but also to stimulate economic development and facilitate the process of economic reform. The findings in this study strongly support that all types of enterprises' attitude towards marketing orientation currently.

The research also has implications for marketing in China. The Western marketing concept has been accepted in modern China but with two misunderstandings. First,

the marketing concept has been confused with the selling concept. Secondly, there has been continuing confusion between marketing as a functional activity and marketing as an organisation-wide approach.

Due to these misunderstanding, Chinese enterprises' marketing activities start from the enterprise's products (at the enterprise's end) rather than the customers or the market. Therefore, most enterprises have continued to emphasise production, advertising and sales promotion to meet sale targets. They believe that the most important marketing activities are advertising and personal selling. This finding suggests the marketing is still at an early stage of its development in China.

9.4.3 IMPLICATIONS FOR THE FURTHER DEVELOPMENT OF THE GLOBAL TOPIC OF MARKETING

With the increased adoption of information and communication technology and computer systems, information is transferred quickly between different markets. This is the main impetus behind the globalisation of business and today's increasingly competitive marketplace (Winer, 2000). The concept of nationally separate markets is no longer relevant, except where strong differences in consumer behaviour and cultural preferences exist. Buyers and suppliers are becoming more global, and globalisation is becoming the most significant challenge for marketing. Marketing strategy thus has to shift from domestic marketing operations to international competition in larger, more disparate markets (Garda, 1988, Lazer, 1993). Although this study does not provide specific guidance for Western companies seeking strategies to enter the Chinese market, it does provide some indications for the pursuit of this goal.

It is clear that Western management technologies and marketing strategies can transfer across cultures only if modifications are made to them. Due to China's distinctive characteristics (*guoqing*), such as the existence of unfair competition, the

prevalence of product copying (plagiarism), and the high importance attached to personal relationships (*guanxi*), Western marketing cannot simply be applied in the Chinese context without further change. Western companies therefore need to have knowledge of the Chinese market, China's distinctive characteristics (*guoqing*) and their Chinese counterparts before entering Chinese market.

9.5 LIMITATIONS OF THE STUDY

This study represents an attempt to overcome the paucity of information relating to marketing activity and marketing behaviour in China against the background of the country's current economic transition. Because of its exploratory nature, a number of limitations must be recognised.

First, the research design was based on certain population coverage. This study used a convenience sample, and the request letter was sent to 28 CCPIT sub-councils, but only nine of them actually distributed the questionnaire to enterprises. These nine CCPIT sub-councils were thus selected as respondents. In reality, they cannot necessarily be considered to be truly representative samples of all Chinese industrial enterprises. The final sample did not readily achieve the standards demanded for a fully random sample. This sample selection process was hindered by the unbalanced economic development of different regions of China. Because of this, enterprises in the nine regions tend to represent those Chinese industrial enterprises that have been subject to most reform and within the most economically developed regions. Therefore, the research sample population has imposed some limitations on the scope and the results of this study. In addition, a future study should focus on a specific region, a specific industrial sector or a specific type of enterprise. Various statistical tests were used for this purpose in the present study, but were frustrated by the small sub-samples involved.

Secondly, the use of managers' perceptions as a data source creates familiar problems of accuracy and causality. Efforts were made to guard against such biases by careful questionnaire design and pre-testing, and by collecting data from a large sample of respondents, but it would be too optimistic to expect that all such errors have been eliminated.

Thirdly, it is certainly possible that culture influences enterprises' marketing behaviour. A large body of literature demonstrates that culture strongly influences individual and societal decisions (Kachelmeier and Shehata, 1992). Owing to time constraints and the restrictions of the thesis structure, this research does not touch on the cultural issue in detail, but is more concerned with the enterprise's internal and external (environmental) factors.

Finally, it must be acknowledged that the research was cumbersome to administer because of the distances involved and the fact that not all the respondents surveyed were familiar with this kind of research. These factors undoubtedly slowed the execution of the study. The traditional Chinese demand for confidentiality also seriously impeded the research and the depth of the research findings.

Despite the limitations stated above, this study provides a good indication of the key features of Chinese industrial enterprises' marketing behaviour. In addition, this study can be used to indicate some key directions for future research.

9.6 FURTHER RESEARCH

China is a developing country. We still cannot know how long it will take to complete the transition from a planned economy to a market-oriented economy. This research was an exploratory study. Because of the research limitations that have been stated, there is a need for further research in the future:

The study could be improved by using larger samples. Data from more representative samples of the whole population of Chinese industrial enterprises need to be drawn. This would permit further analyses about Chinese industrial enterprises' marketing behaviour across segments, industrial sectors, and geographical areas.

It would be instructive, too, to broaden the study to include Western countries in order to establish a comparative analysis and to assess whether predictions of the differences of marketing behaviour between Eastern and Western countries are correct. There would be some value in assessing the marketing effectiveness of companies in Western countries, as China is seeking to join the World Trade Organisation (WTO) in the near future.

Future research could also focus on only one or two aspects of Chinese enterprises' marketing behaviour and seek more details. Other variables could be included, such as the characteristics of distribution channels, to display a clearer picture of Chinese enterprises' marketing behaviour.

Finally, this is a quantitative study in which the respondents' attitudes and perceptions towards the marketing variables are measured by their reactions to single statements only. In order to further understand and substantiate these initial findings, it would be necessary to express the marketing variables in more comprehensive ways and to collect responses via appropriate sampling design methodologies.

9.7 PERORATION

This research makes two main contributions to the literature. First, it measures a wider range of variables that might account for the enterprises' marketing behaviour than has hitherto been considered, at least in the case of China. For example, the

role of the enterprise's marketing department in enterprises' marketing behaviour has never been examined quantitatively before. Due to the special conditions of China's economic transition and the non-existence of marketing departments until fairly recently, this research has paid close attention to identifying the changes and impacts of the new marketing departments. Secondly, it has been stated that "the vast majority of studies relating to the marketing concept have occurred within western business settings (Deng and Dart, 1999), but few studies have considered the adoption of the marketing concept and marketing orientation in China (Liu, 1991, Whybark, 1994). This research follows up the previous research to reveal the development of application of the marketing concept in Chinese enterprises. Thus breaks new ground in an important area of investigation.

The research has presented the results from an empirical study of marketing behaviour in 820 Chinese enterprises located in seven provinces and two cities of China in 1996-97, and has investigated the adoption by those enterprises of the marketing concept and marketing orientation. In particular, it has explored the impact of the marketing department, government control, enterprises' competitiveness, and enterprises ownership on enterprise's marketing behaviour in a transition economy. The research results demonstrate that government controls for all types of enterprises have been reduced. For this reason, the impact of enterprise ownership on the adoption of the marketing concept and marketing orientation is not strong. The finding that government control has been reduced is consistent with the findings of earlier research by Liu (1991) and Deng and Dart (1995 and 1999). Further, although orientation forms are slightly different in their distribution for the six types of enterprises, the research shows that in general the type of ownership is not very significant.

The research also reveals that the process of transforming a planned economy to a market oriented economy has certainly changed Chinese enterprises' behaviour and their internal operation structure. Most enterprises have set up a marketing

department to organise marketing activities. They have accepted the marketing concept but have not yet recognised the strategic role of marketing. Thus, some enterprises with a strong marketing department and reduced government control have still not achieved positive or successful marketing activities. This indicates that the marketing concept has only been partially adopted in China. The selling concept is still dominant. It is also clear that the effective design of marketing activities does not guarantee strong competitiveness. When international marketers market their products or services in China or set up joint ventures with Chinese partners, they must recognise that Chinese marketing behaviour is different from their own. The marketing strategies which have been employed successfully in Western countries must be modified if they are to be applied effectively in China. International marketers must therefore carefully consider the characteristics of Chinese enterprises' marketing behaviour in order to avoid the risk of business failure.

In general, Chinese enterprises' attitudes are moving towards a marketing orientation after 20 years of economic reform. However, there is still a long way to go before China's economy can be judged a true market economy. It will take time for Chinese enterprises to complete the transformation from a selling or production orientation to a marketing orientation.

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APPENDIX 1

FIRST LETTER TO CCPIT

Chairman
China Council for Promotion
Of International Trade

Date: 20 September 1996

Dear Sir or Madam,

I am a Research Assistant at Coventry and Warwickshire Chamber of Commerce in the UK. Our main task is to promote business links between British and Chinese enterprises. Currently, we are conducting a comparative marketing research in relation to enterprise marketing in China and the UK, through a large questionnaire survey. We believe this will be beneficial to both British and Chinese enterprises.

I understand that CCPIT is the main contact of Chinese companies who wish to enter and develop in foreign markets. I would be most appreciated if you can provide a list of contact details of Chinese enterprises in your region, who will be contacted only by us to complete the questionnaire in confidence. Alternatively please could you deliver the attached questionnaire on my behalf to enterprises who wish to participate.

Your assistance is highly appreciated. We look forward to your early reply.

Best wishes.

Yours sincerely,

Wendy Che

P.S.

Reply to:
Ms. Wendy Che
53 John Rous Ave.
Coventry
CV4 8FB
United Kingdom

APPENDIX 2

SECOND LETTER TO CCPIT

29 October 1996

Chairman
China Council for Promotion
Of International Trade

Dear Sir/Madam,

Thank you very much for your prompt response to agree participating survey of Chinese enterprises's marketing behaviour.

Would you please deliver attached the questionnaire and collect them before the end of June 1997. A survey questionnaire is attached herewith. We believe this will be beneficial to both British and Chinese enterprises and we will be pleased to let you know research results.

Your cooperation is highly appreciated.

Best wishes.

Yours sincerely,

Wendy Che

P.S.
Reply to:
Ms. Wendy Che
53 John Rous Ave.
Coventry
CV4 8FB
United Kingdom

APPENDIX 3

Marketing Questionnaire

(Used in China – 1996/1997)

Guide to fill in the questionnaire

Please read the questions carefully and tick the most appropriate response. There are no “right or wrong” answers-just read each question carefully and choose the answer you feel is most appropriate for you. All information is strictly confidential.

Enterprise’s Name :.....

Your Name :.....

Your Job Title :.....

Date :.....

Part 1: Enterprise Background

Q1. For how many years has your enterprise been operating?

- ☐ 5 years or less than 5 years
- ☐ 5-10 years
- ☐ 10-20 years
- ☐ 20-30 years
- ☐ More than 30 years

Q2. Is your enterprise:

- A.
- ☐ State-owned enterprise
- ☐ Urban collectives enterprise
- ☐ Township-village enterprise
- ☐ Joint venture
- ☐ Private enterprise
- ☐ Joint stock system
- B.
- ☐ Manufacturer
- ☐ Wholesaler or other intermediary
- ☐ Retailer
- ☐ Service

Q3. In what type of market does your enterprise predominantly work?

- ☐ Consumer Durable
- ☐ Industrial Goods
- ☐ Fast Moving Consumer Goods
- ☐ Large Industrial Equipment
- ☐ Other
- ☐

Q4. Main products of your enterprise:

- ☐ Sell to domestic market
- ☐ Direct export
- ☐ Indirect export
- ☐ Other

Q5. What is geographical coverage if main products of your enterprise sell to domestic market?

- ☐ Whole domestic market
- ☐ Local market
- ☐ Part of domestic market
- ☐ Other

Q6. What is the approximate number of employees of your enterprise:

- ☐ Less than 100
- ☐ 100-249
- ☐ 250-499
- ☐ 500-999
- ☐ 1000-2000
- ☐ More than 2000

Q7. What was the approximate turnover of your enterprise in the last financial year?

RMB Is it ☐ Profit ☐ Loss

Q8. Any links your enterprise has had with western companies?

- ☐ Yes
- ☐ No

**Q9. What problems have you found in doing business with western company?
If more than one, please put in rank order:**

- ☐ Not enough international market information
- ☐ Government influence
- ☐ Cultural difference
- ☐ Availability of high quality raw materials
- ☐ Poor cost and efficiency position
- ☐ Poor product quality
- ☐ Too many barriers (standards, language etc.)
- ☐ Other

Q10. What extent is your enterprise affected by western companies?

- ☐ Great influence
- ☐ Influence
- ☐ Moderately
- ☐ Little influence
- ☐ Not at all

Part 2: Marketing Organisation in the Enterprise

Q1. What is Definition of marketing do your think?

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Q2. From where do you learn the marketing concept and strategy?

- ☐ From the books and magazine
- ☐ Working in western company
- ☐ Take training course
- ☐ University

Q3. Do you think that western marketing concept and strategy are suitable for Chinese enterprise?

- ☐ Very suitable
- ☐ Suitable
- ☐ Moderately
- ☐ Part suitable
- ☐ Not suitable

Why?

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Q4. From the following statements, which ONE best describes the status of marketing in your enterprise? (TICK ONE BOX)

- ☐ Marketing is really non-existent in our enterprise
- ☐ Marketing is what the sales and marketing departments do
- ☐ Marketing is seen as a guiding philosophy for the whole organisation

Q5. Who is highest responsible for marketing in your enterprise?

- ☐ Managing director
- ☐ Deputy managing director
- ☐ Sales director
- ☐ Marketing director
- ☐ Other (Specify)

Q6. How much influences does the above mentioned person have on the marketing strategy?

- ☐ Considerable
- ☐ A lot
- ☐ Moderately
- ☐ A little
- ☐ Not at all

Q7. What is the role played by head of marketing in determining corporate strategy?

- ☐ Very important
- ☐ Important
- ☐ Moderately
- ☐ Quiet important
- ☐ Not important

Q8. What is the approximate number of employees of marketing department?

.....

Q9. How many persons have a certificate, Diploma of Marketing or business in the marketing department of your enterprise?

.....

Q10. What is relationship between the marketing and the sales departments?

- ☐ There is no different between the marketing and sales departments
☐ The marketing position is subordinate to sales position
☐ The sales position is subordinate to marketing position
☐ The marketing position is equal to the sales position

Q11. What is the status of the marketing department in comparison with functional departments (e. g. production, finance) in your enterprise?

- ☐ Equal ☐ Higher than other ☐ Lower than other

Q12. To what extent does marketing department co-operate with functional departments?

	Very close	Close	Neutral	Distant	Not at all
Production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Purchase & physical distribution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sales	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Finance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
R&D	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q13. What tasks are handled by the marketing department of your enterprise ?

	Yes	No	If no, where is it included?	Please put number in rank order with important extent
Marketing planning	<input type="checkbox"/>	<input type="checkbox"/>
Marketing research	<input type="checkbox"/>	<input type="checkbox"/>
Advertising	<input type="checkbox"/>	<input type="checkbox"/>
New product development	<input type="checkbox"/>	<input type="checkbox"/>
Sales and after sales service	<input type="checkbox"/>	<input type="checkbox"/>
Distribution	<input type="checkbox"/>	<input type="checkbox"/>
Public relations	<input type="checkbox"/>	<input type="checkbox"/>

Q14. What degree is new product R & D influenced by marketing department's view?

- ☐ Greatly ☐ A lot ☐ Moderately ☐ A little ☐ Not at all

Q15. What role does marketing play in your enterprise's strategic planning?
(TICK ONE BOX)

- ☐ Little or no role ☐ A limited support role
☐ A major input to strategic planning ☐ Marketing leads to strategic planning

Q16. Are there following departments before the reform in your enterprise?

- ☐ Sales ☐ Supply
☐ Purchase ☐ Marketing

Q17. Are there following departments now in your enterprise:

- ☐ Sales
- ☐ Purchase
- ☐ Supply
- ☐ Marketing

Q18. What changes have taken place in the marketing organisation of enterprise following reform:

- ☐ Extending sales department
- ☐ Setting up marketing department
- ☐ Raising sales department level
- ☐ Other (Specify)

Part 3: Marketing Practices

Q1. In terms of your enterprise’s objectives, which ONE statement best reflects your approach? (TICK ONE ONLY)

- ☐ This enterprise aims to achieve its objectives by expanding the total market
- ☐ This enterprise aims to achieve its objectives by entering newly emerging market segments
- ☐ This enterprise aims to achieve its objectives by gaining market share from competitors
- ☐ This enterprise aims to achieve its objectives by focusing on cost reductions/productivity
- ☐ Other (Specify).....

Q2. Which of the following best describes the marketing approach of your enterprise?

- ☐ Make what we can and sell it to whoever will buy it
- ☐ Place major emphasis on advertising and selling to ensure sales
- ☐ Place major emphasis on prior analysis of market needs, adapting our products to meet them if necessary

Q3. To what extent are you in agreement with the following statements?

	Agree totally	Agree A little	Neutral	Disagree a little	Disagree totally
Objectives are driven by customer satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rapid response to competitive market actions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Marketing managers regularly visit customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Competitive strategies are based on understanding customer needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer satisfaction is frequently and systematically measured	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Close attention is given to after sales service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Top management regularly discuss competitors’ strengths and weaknesses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Business functions are integrated to serve market needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Salespeople share information on competitors' strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interfunctional communication of information about customer experiences	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q4. To what extent do you used the following promotional methods in your enterprise?

	Greatly	A lot	Moderately	A little	Not at all
Advertising	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Personal selling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Public relations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sales promotion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sponsorship	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q5. If you used advertising, what media have you used for your advertising? (If more than one, Please put in rank order)

<input type="checkbox"/> Newspaper	<input type="checkbox"/> Magazine	<input type="checkbox"/> Television	<input type="checkbox"/> Radio
<input type="checkbox"/> Outdoor	<input type="checkbox"/> Direct mail	<input type="checkbox"/> Sponsorship	<input type="checkbox"/> Other (Specify).....

Q6. What is the approximate annual expenditure on advertising?

.....

Q7. If you have not used advertising in the last 3 years, the reason is: (If more than one, please put in rank order)

<input type="checkbox"/> Lack of funds	<input type="checkbox"/> Products readily sold without advertising
<input type="checkbox"/> Not cost effective	<input type="checkbox"/> Other (Specify)

Q8. If you have used sales promotion, what tools have used?

<input type="checkbox"/> Samples	<input type="checkbox"/> Coupons	<input type="checkbox"/> Pricepacks
<input type="checkbox"/> On-pack premiums	<input type="checkbox"/> Refund for multiple proof of purchase	<input type="checkbox"/> Price discount

Q9. What is the approximate annual expenditure on sales promotion:

RMB.....

Q10. What are the major pricing decision objectives? (Tick one box only)

<input type="checkbox"/> No-less	<input type="checkbox"/> Current profit maximisation	<input type="checkbox"/> Gain market-share
<input type="checkbox"/> Seeking long-term profit	<input type="checkbox"/> Reflecting product quality	

Q11. The major products price is set by:

<input type="checkbox"/> State price bureau compulsory plan	<input type="checkbox"/> Local price bureau compulsory plan
<input type="checkbox"/> Top management of the enterprise	<input type="checkbox"/> Marketing department
<input type="checkbox"/> State price bureau guide plan	<input type="checkbox"/> Local price bureau guide plan
<input type="checkbox"/> Production department	<input type="checkbox"/> Other

Q12. If prices are set by compulsory plan, to what extent is it?

- ☐ Greatly ☐ A lot ☐ Moderately ☐ A little ☐ Not at all

Q13. What are the criteria for setting prices on the products?

- ☐ State-planned price
☐ Based on average price of similar enterprise
- ☐ Production cost of the enterprise
☐ According to market conditions

Q14. To what extent are you in agreement with the following statements:

	Agree totally	Agree A little	Neutral	Disagree a little	Disagree totally
Price promotions are necessary activities stimulate short-term sales.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Price promotions create the brand switchers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Frequent price promotions destruct the long-term health of the brand.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Non- price promotions create greater brand loyalty.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Non- price promotions have little effect on sales.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q15. To what extent does your enterprise carry out marketing research:

- ☐ Great ☐ A lot ☐ Moderately ☐ A little ☐ Not at all

Q16. What is the approximate annual expenditure on marketing research?

RMB

Q17. To what degree is the result of marketing research used by enterprise decision-makers?

- ☐ Frequently ☐ Sometimes ☐ Never

Q18. Is there formal marketing planning in your enterprise?

- ☐ There is little or none
- ☐ Limited to annual budgeting
- ☐ A separate annual marketing plan
- ☐ Annual and long-term plans

Q19. How successful is the marketing plan?

- ☐ Great ☐ A lot ☐ Moderately ☐ A little ☐ Not at all

Why?

.....
.....
.....
.....

.....

Q20. What principal contents does your marketing plan cover? (Please tick as many as apply)

- | | | | |
|---|---|---|--|
| <input type="checkbox"/> Sales volume goals | <input type="checkbox"/> Market share goals | <input type="checkbox"/> Profit goals | <input type="checkbox"/> Target market |
| <input type="checkbox"/> Advertising | <input type="checkbox"/> Controls | <input type="checkbox"/> Distribution channel | <input type="checkbox"/> Sales force |
| <input type="checkbox"/> Product line | <input type="checkbox"/> Price | <input type="checkbox"/> After-sales service | |

Q21. What are the methods employed by your enterprise to examine whether the planned results are being achieved?

- | | | |
|--|--|---|
| <input type="checkbox"/> Sales analysis | <input type="checkbox"/> Market-share analysis | <input type="checkbox"/> Consumer attitude tracking |
| <input type="checkbox"/> Sales-to-expense ratios | <input type="checkbox"/> Financial analysis | |

Q22. To what degree does the marketing team use the following external support agencies? (TICK ONE BOX IN EACH LINE)

	Regularly	Occasionally	Very infrequently	Never
Market research	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Advertising	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Direct mail	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Telesales	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate design	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Promotion consultancy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q23. The future three years objectives of your enterprise are:

- | | |
|--|--|
| <input type="checkbox"/> Develop new products | <input type="checkbox"/> Increase sales force and turnover |
| <input type="checkbox"/> Increase market share | <input type="checkbox"/> Improve product quality |
| <input type="checkbox"/> Launch famous brand | <input type="checkbox"/> Develop new markets |

Q24. Which of the above are the four main ones in rank order?

Most important is number Second is Third is Fourth is

Part 4: Marketing Competition

Q1. Your major product is in a

- ☐ Growing market ☐ Stable marketing ☐ Decline market ☐ Unknown

Q2. The future competition for your major product tends to be:

- | | | |
|---|--|----------------------------------|
| <input type="checkbox"/> Very competitive | <input type="checkbox"/> Competitive | <input type="checkbox"/> Neutral |
| <input type="checkbox"/> Less competitive | <input type="checkbox"/> Not competitive | |

Q3. Your competition match is:

- ☐ Home-enterprises ☐ West companies ☐ Both companies
☐ Not at all ☐ Don't know

Q4. Do you think your enterprise has a systematic method of gathering, processing, analysing and reporting information about competitors?

- ☐ Definitely ☐ Probably ☐ Uncertain ☐ Probably not ☐ Definitely not

Q5. Please indicate the types of information your management feels they need to know about competitors

- ☐ Pricing ☐ Competitive plans ☐ Sales statistics
☐ Cost data ☐ Promotion strategy ☐ R & D
☐ Manufacturing ☐ Financing ☐ Product styling

Q6. The enterprise gets information of the competition marches from:

- ☐ Media ☐ Salesforce ☐ State statistical data
☐ Consultancy company ☐ Others

Q7. To what extent are you in agreement with the following statements? (TICK ONE BOX IN EACH LINE)

	Agree totally	Agree A little	Neutral	Disagree a little	Disagree totally
We understand the market's trends	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We know our product markets well	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We know our main competitor well	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We know our customers' profiles well	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We know our customers' needs well	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We understand how our customers buy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q8. What are your competitive strategies?

- ☐ Price-discount ☐ Distribution-innovation
☐ Cheaper-goods ☐ Manufacturing-cost-reduction
☐ Prestige-goods ☐ Product-innovation
☐ Improved-services ☐ Quite copy prestige-goods
☐ Intensive advertising promotion ☐ Product-proliferation

Q9. Do you think that enterprise marketing competition is fair in China.

- ☐ Greatly ☐ A lot ☐ Moderately ☐ A little ☐ Not at all

If no, which of the following best describes the unfair:

- ☐ Government bureau limit the entry of competitors
☐ Government manipulate price
☐ Different tax rate between the enterprise
☐ Different employment system in different enterprise
☐ Other

Q10. Do you think that the establishment of no-deal-relationship is important in the enterprise's marketing practice?

- ☐ Very important ☐ Important ☐ Moderately ☐ Quite important ☐ Not at all

Q11. What methods do you usually use for establishment of no-deal-relations?

.....

.....

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.....

.....

.....

Part 5: Government Control

Q1. To what degree are you influenced by government in running your business?

- ☐ Great ☐ A lot ☐ Moderately ☐ A little ☐ Not at all

Q2. Does your enterprise have:

- ☐ Price-decision right ☐ State sponsor in the funds ☐ State sponsor in the raw material
- ☐ Product planning decision right ☐ Good rate in tax

Q3. What are the controls of government authorities on the enterprise performance?

- ☐ By control product price ☐ By tax rate ☐ By production licence
- ☐ By substituting loan ☐ By imposing output limits ☐ By control raw material
- ☐ By business law ☐ Other

Q4. How did the enterprise sell products before the reforms?

- ☐ By marketplace ☐ By central plan

Q5. How does the enterprise sell products now?

- ☐ By marketplace ☐ By Central plan

Q6. What restrictions imposed by government authorities on enterprises when they purchase inputs from the market?

- ☐ Price ☐ Quantity ☐ Suppliers ☐ Purchase channels ☐ Other

Q7. What are restrictions imposed by government authorities on enterprises when they sell products to the market?

- ☐ Price
- ☐ Quantity
- ☐ Sales licence
- ☐ Distribution channels
- ☐ Other

Q8. To what extent are your sales controlled by a compulsory plan?

- ☐ Great
- ☐ A lot
- ☐ Moderately
- ☐ A little
- ☐ Not at all

Q9. To what extent is your production controlled by a compulsory plan?

- ☐ Great
- ☐ A lot
- ☐ Moderately
- ☐ A little
- ☐ Not at all

Q10. What is your attitude towards the government control in the following aspects?

	Price	Products	Supply	Sales	Investment
We prefer to increase control.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We prefer to decrease control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We prefer to remain unchanged	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We have no idea	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

APPENDIX 4

Thank Letter

Date: 12 December 1997

Dear Respondents,

Thank you very much for returning your completed questionnaire. We are currently compiling all the data and will analyse the project systematically in the future. I will be pleased to forward our research results to you if you are interested.

Thank you again for your co-operation. I wish you every success in business.

Best wishes.

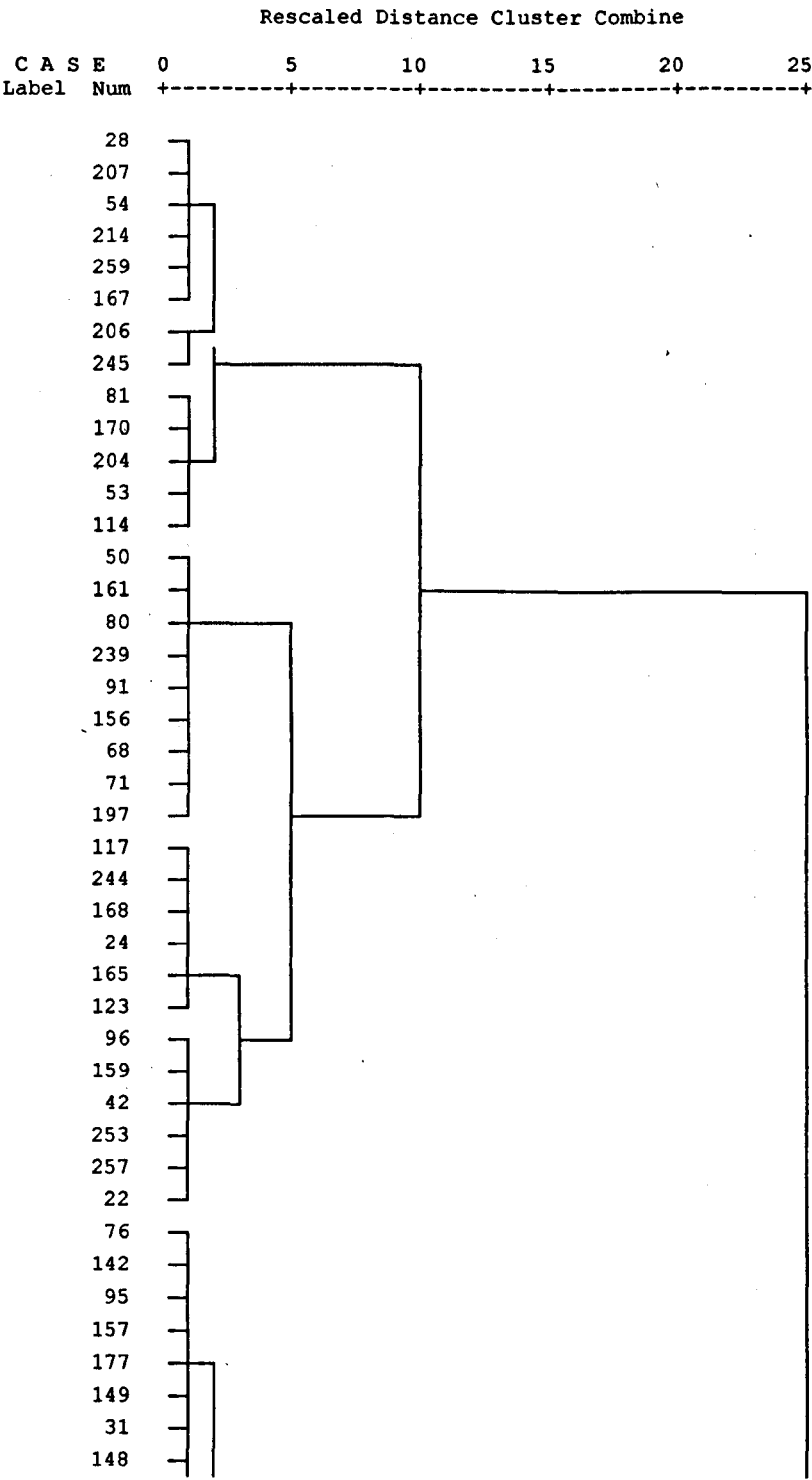
Yours sincerely,

Wendy Che

APPENDIX 5-1

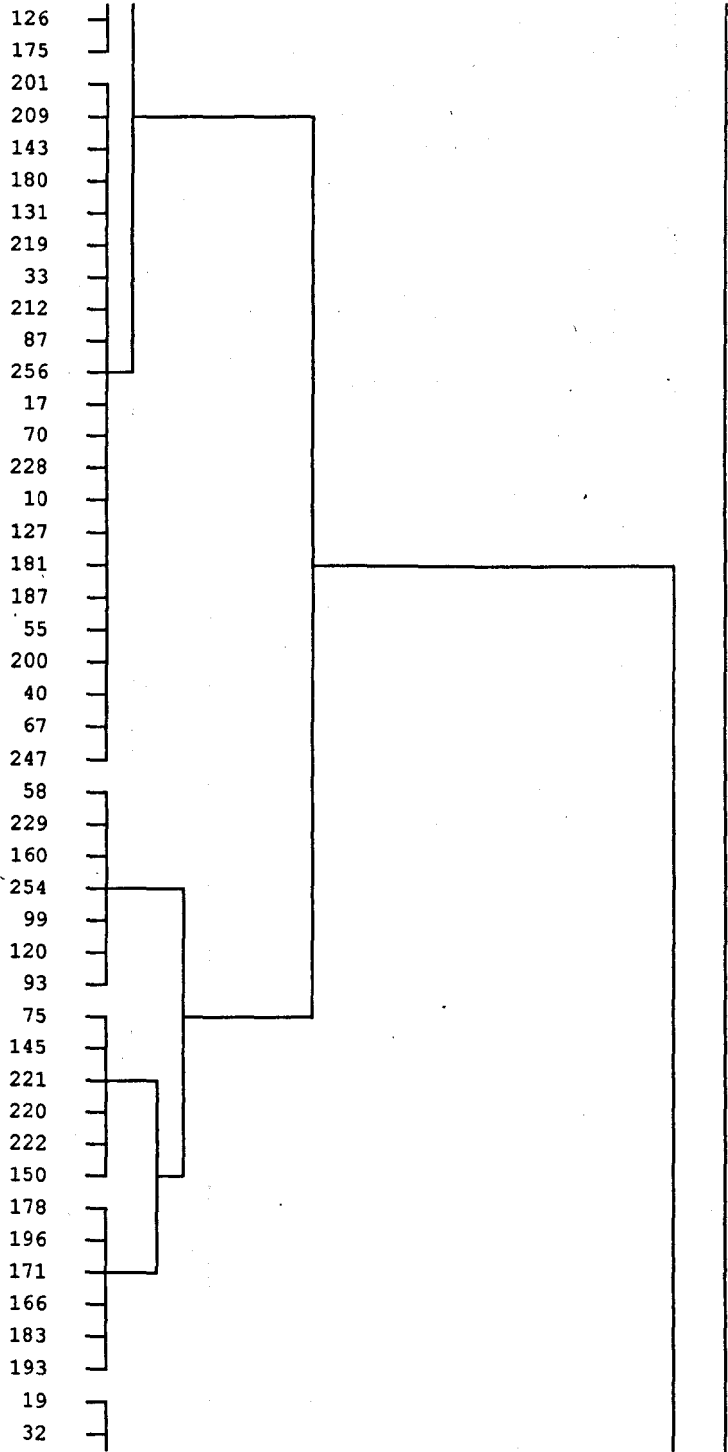
Dendrogram Using Ward Method for Variables of Marketing Department

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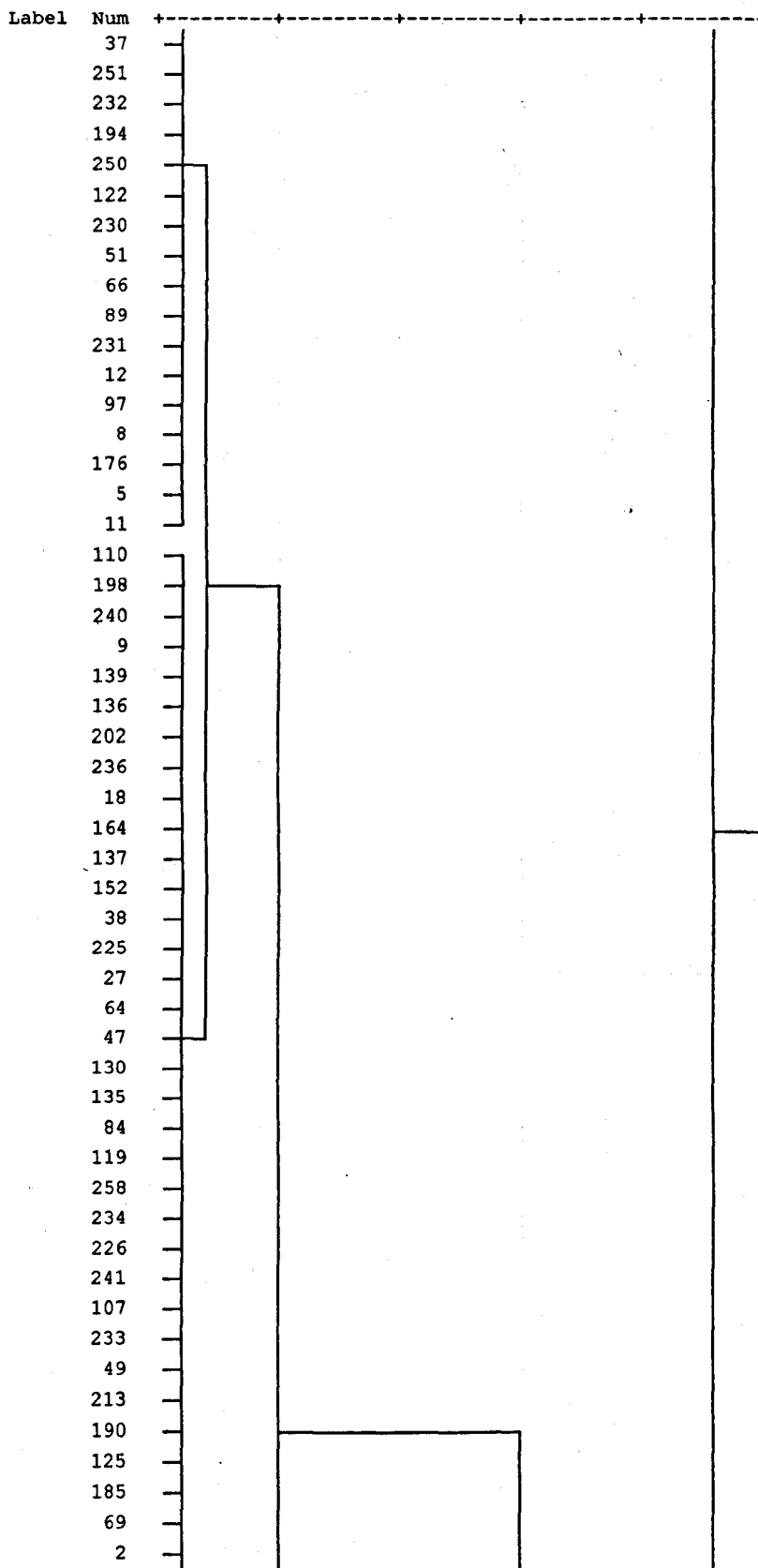


C A S E 0 5 10 15 20 25

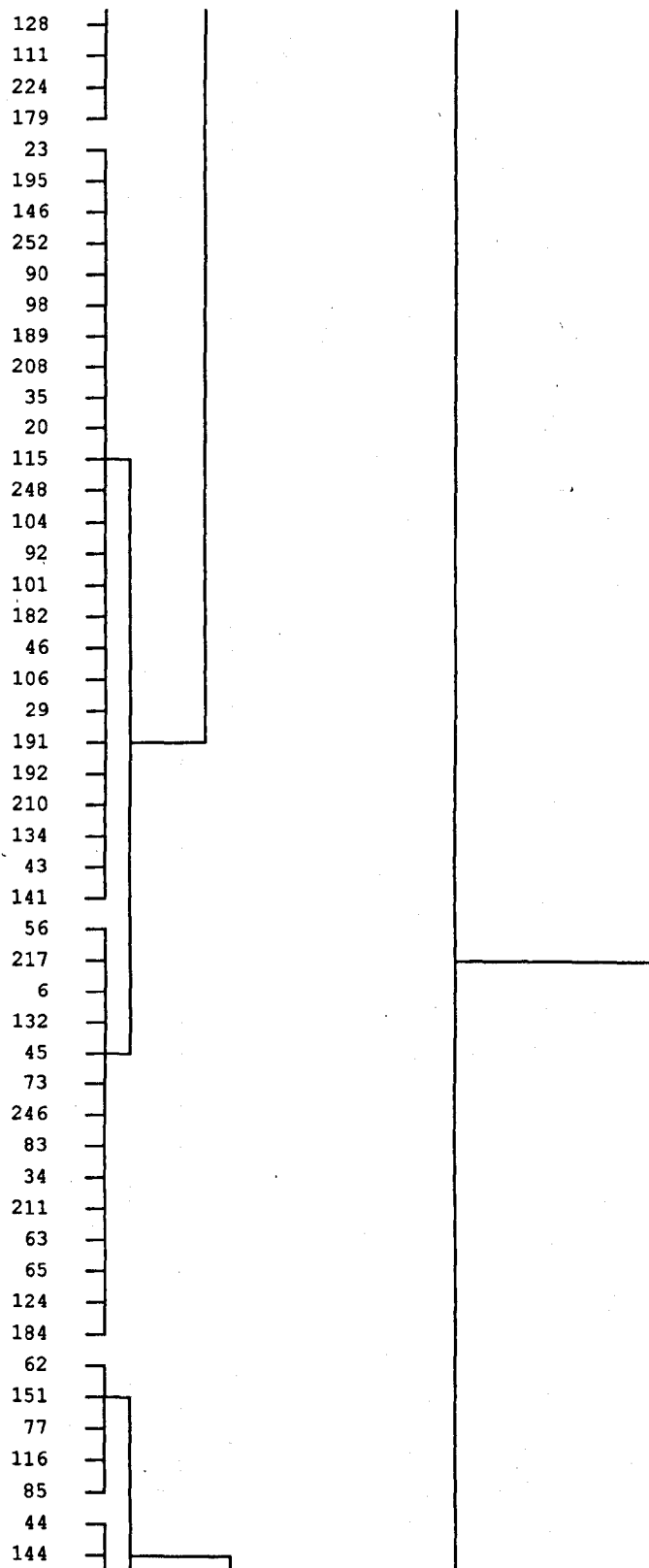
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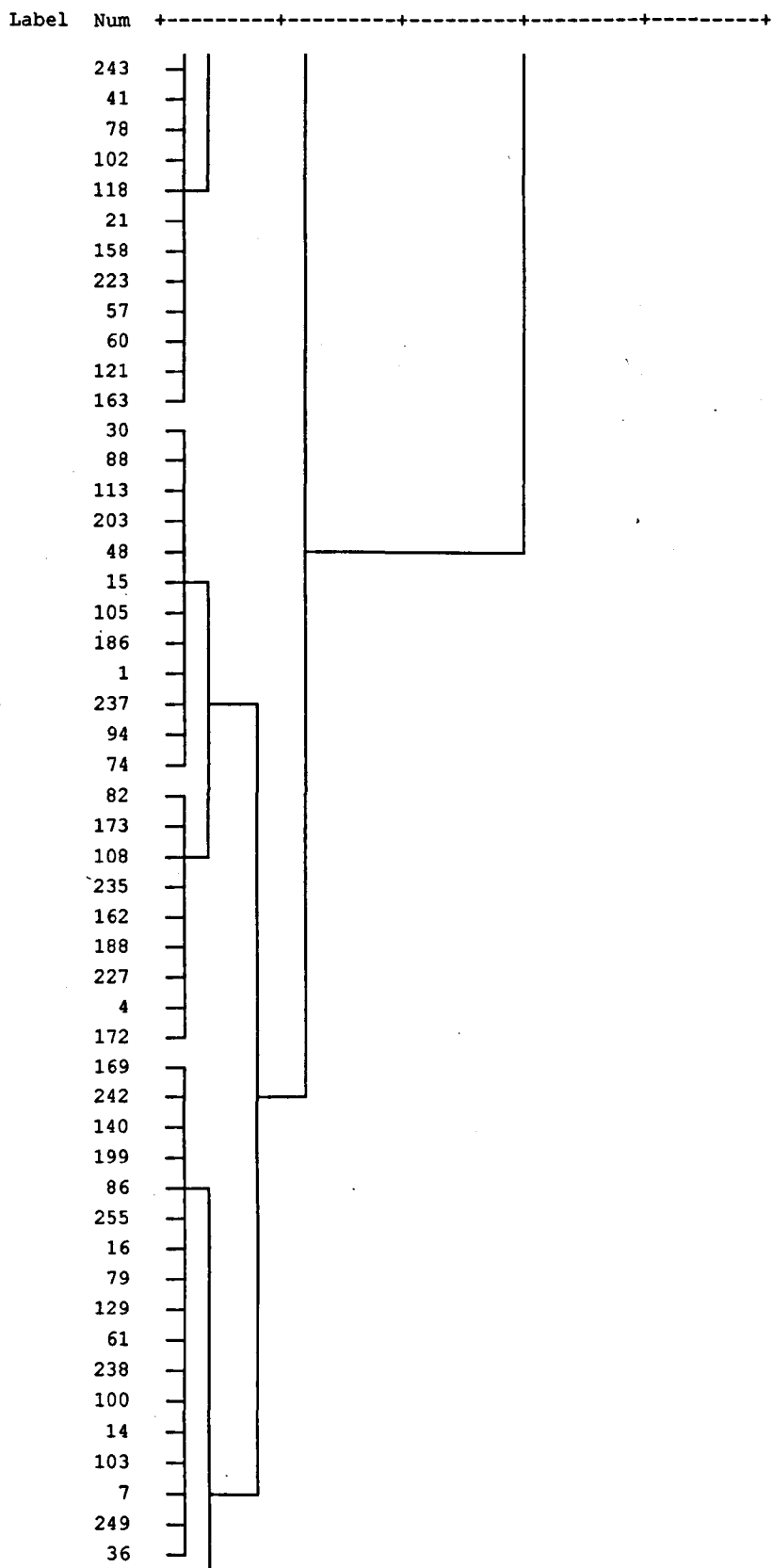
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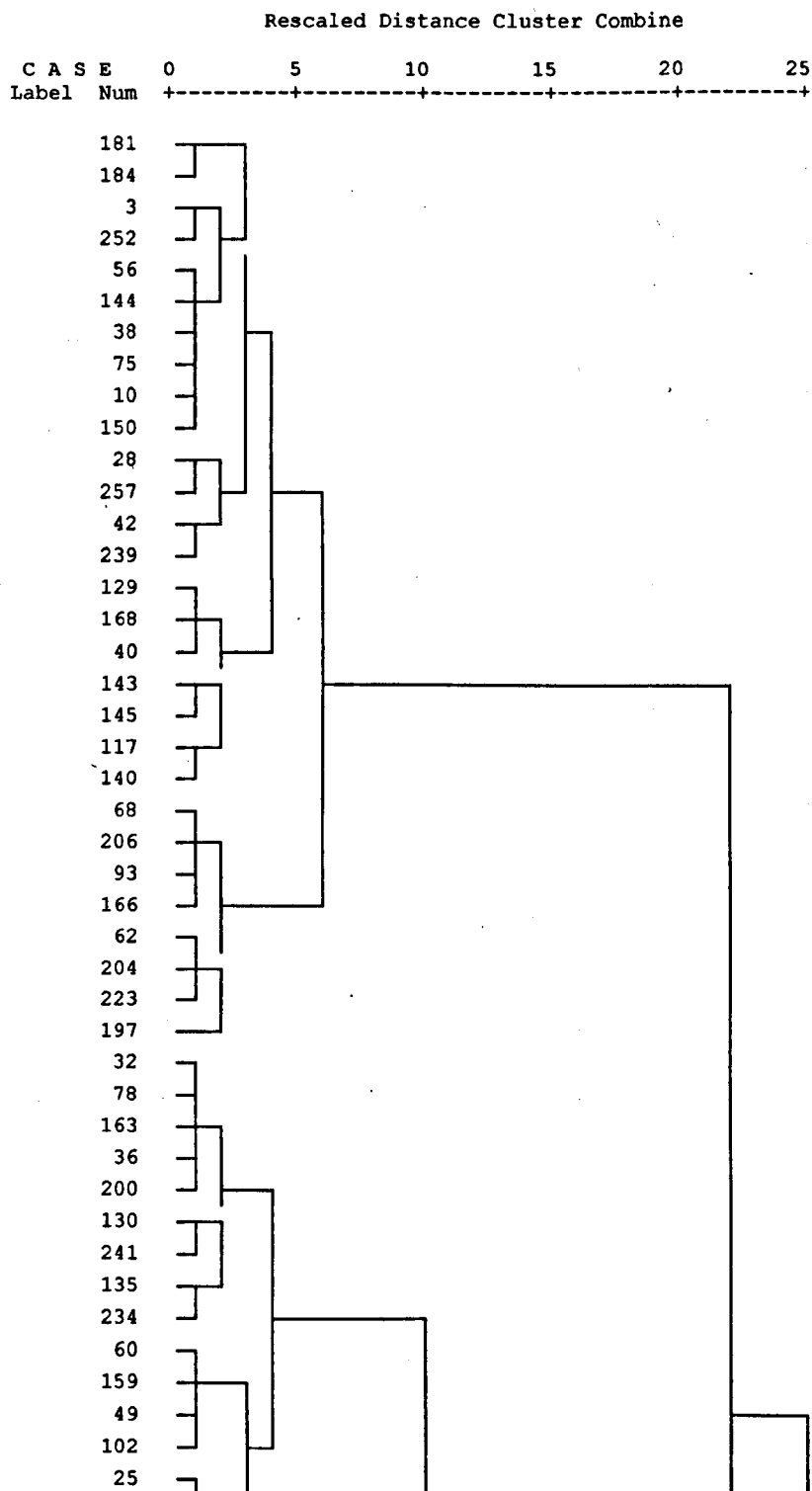
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109	
260	
72	
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39	
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25	
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215	

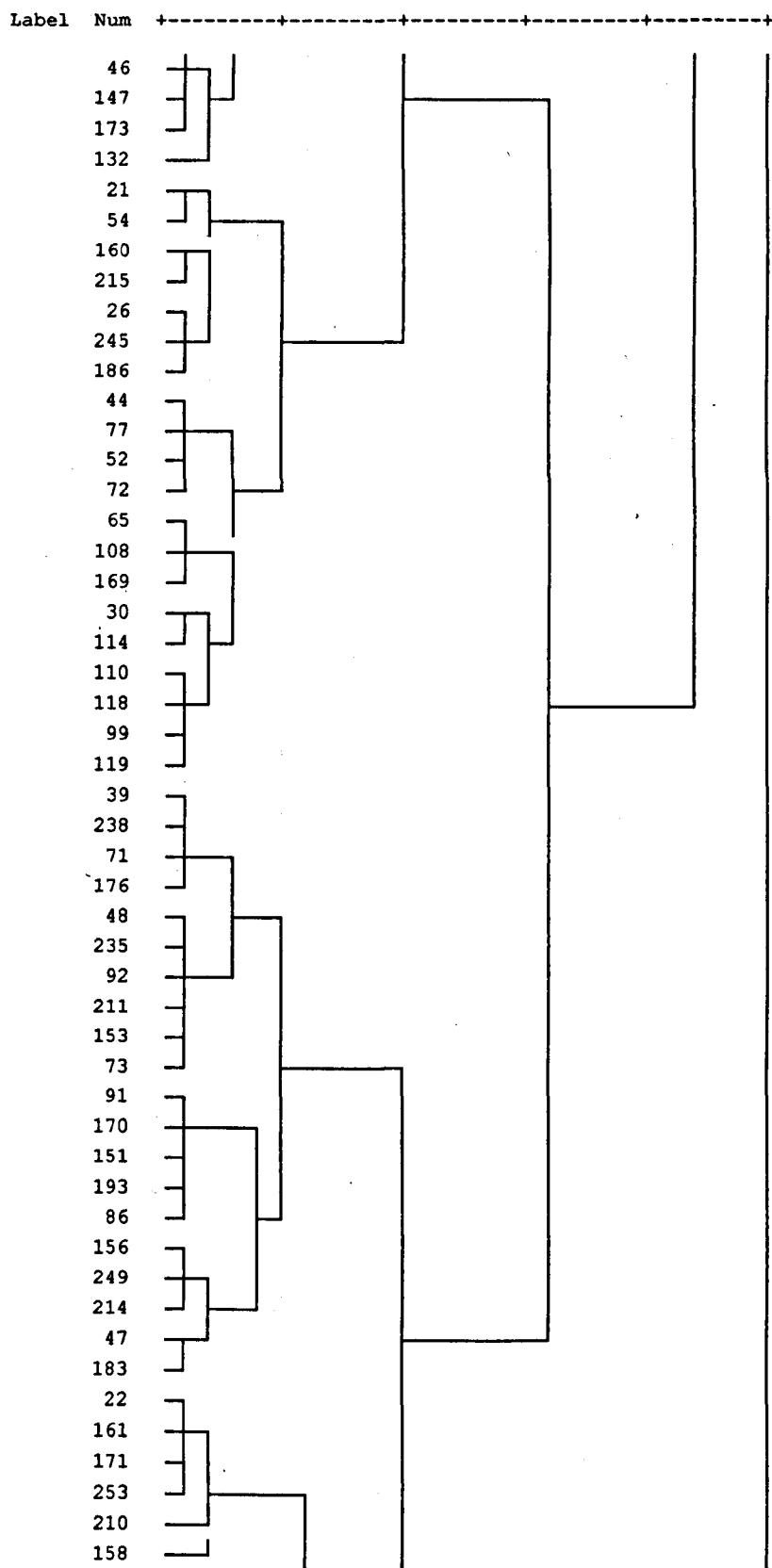
APPENDIX 5-2

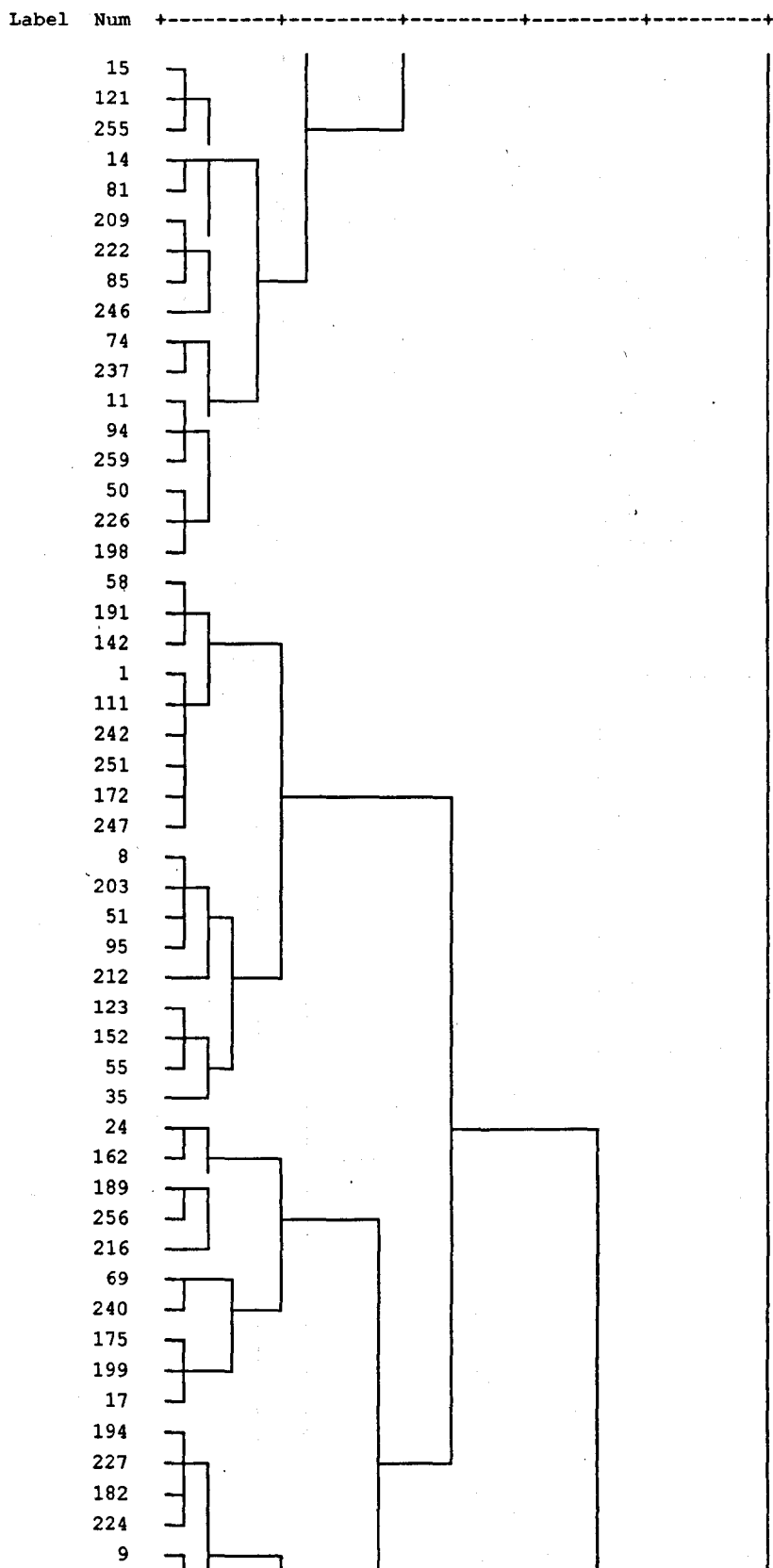
Dendrogram Using Ward Method for Variables of Marketing Activity

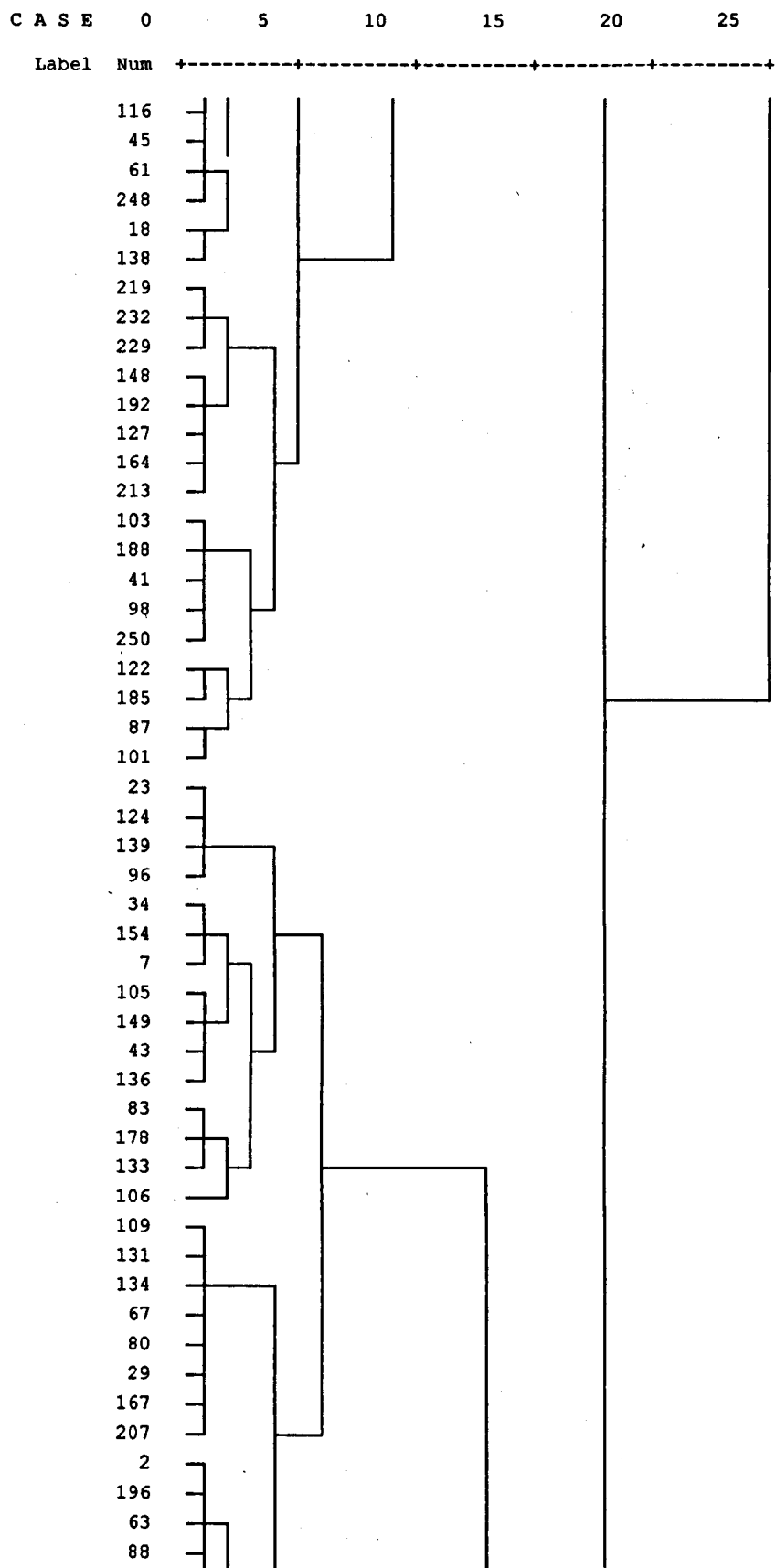
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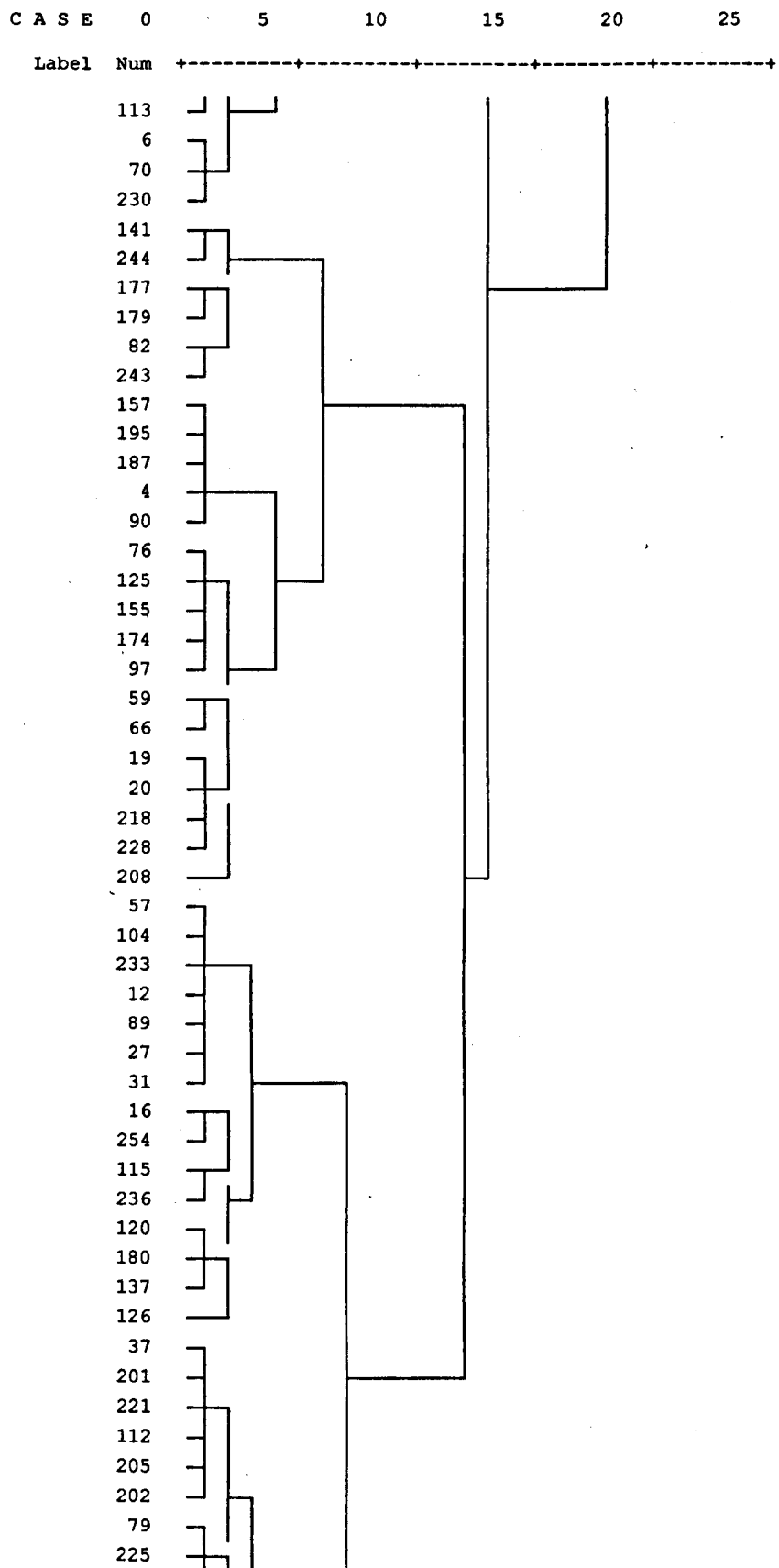


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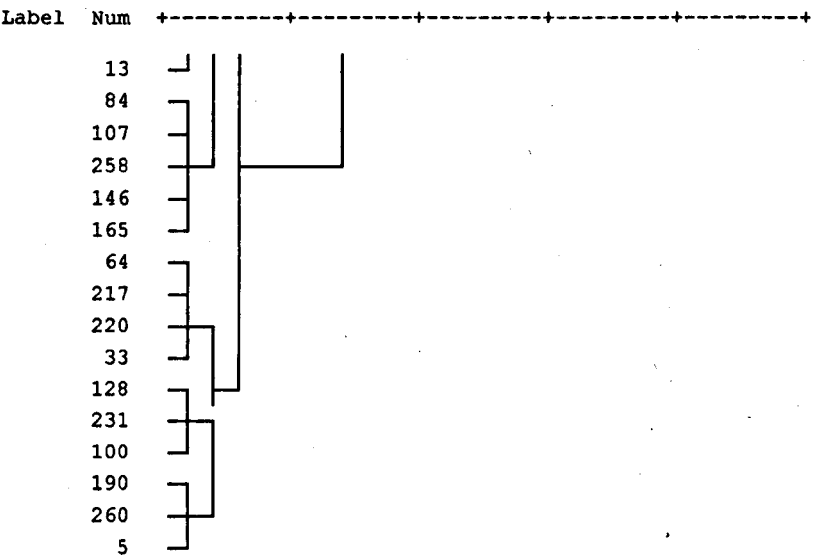








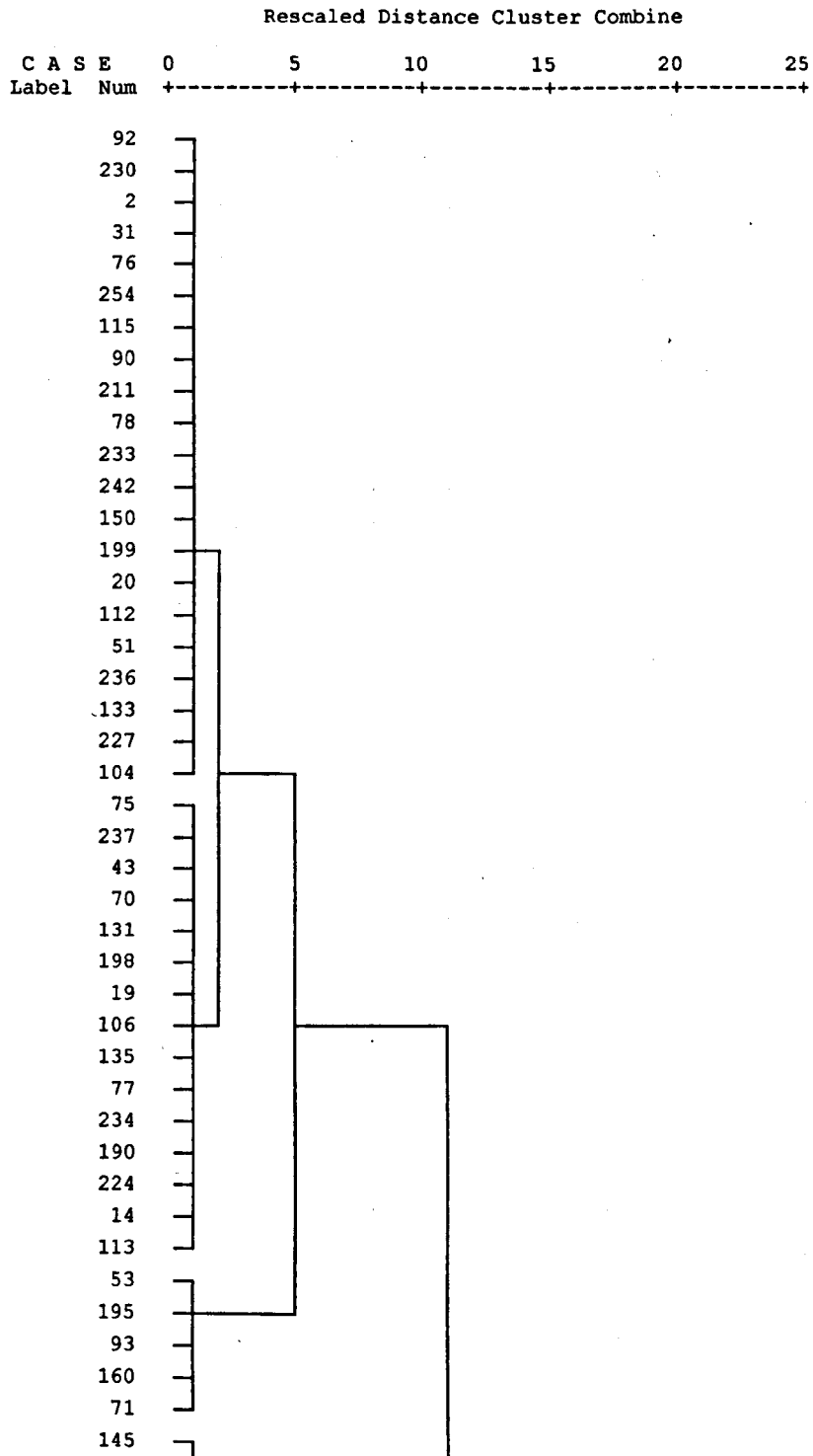
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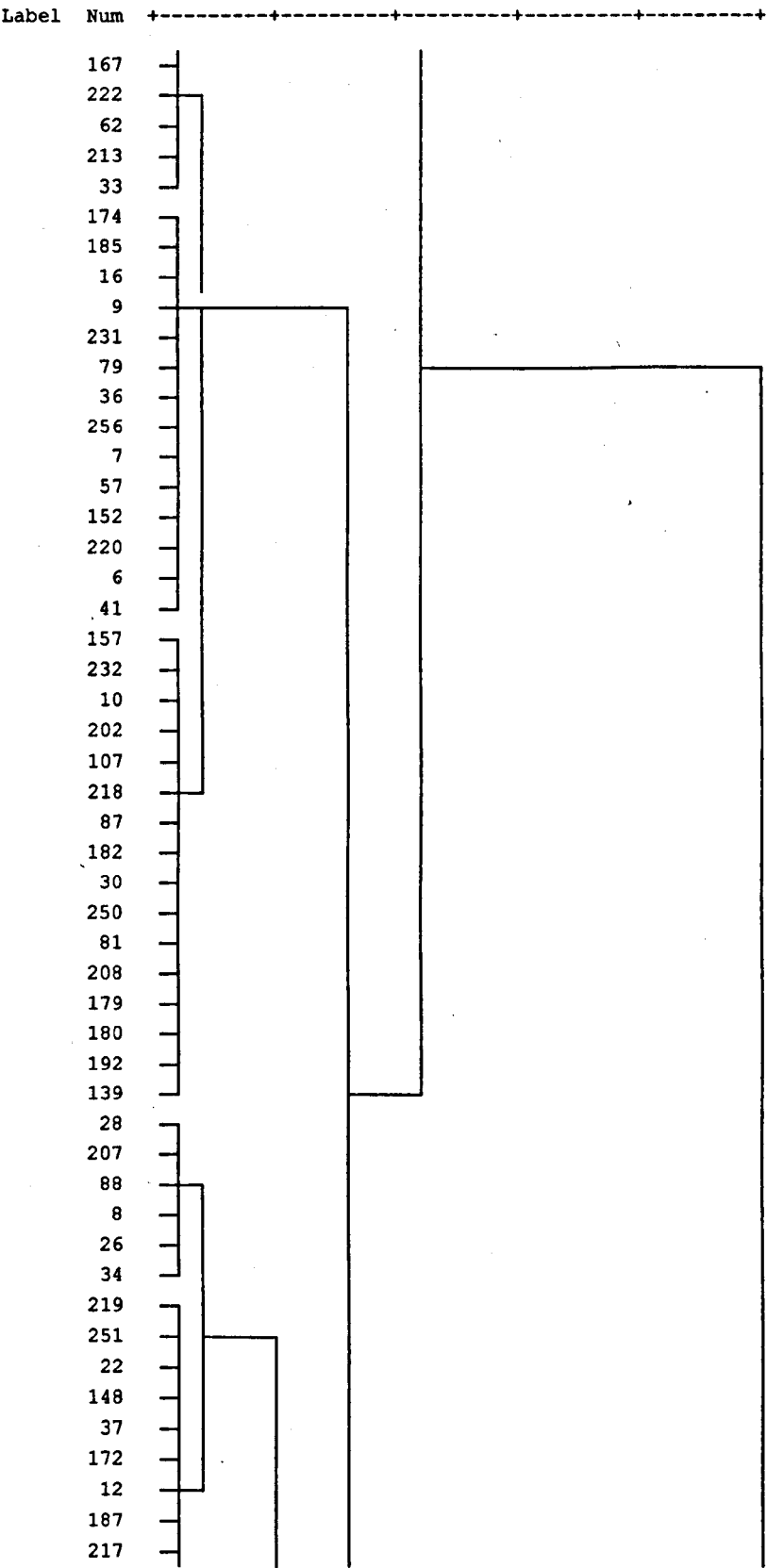


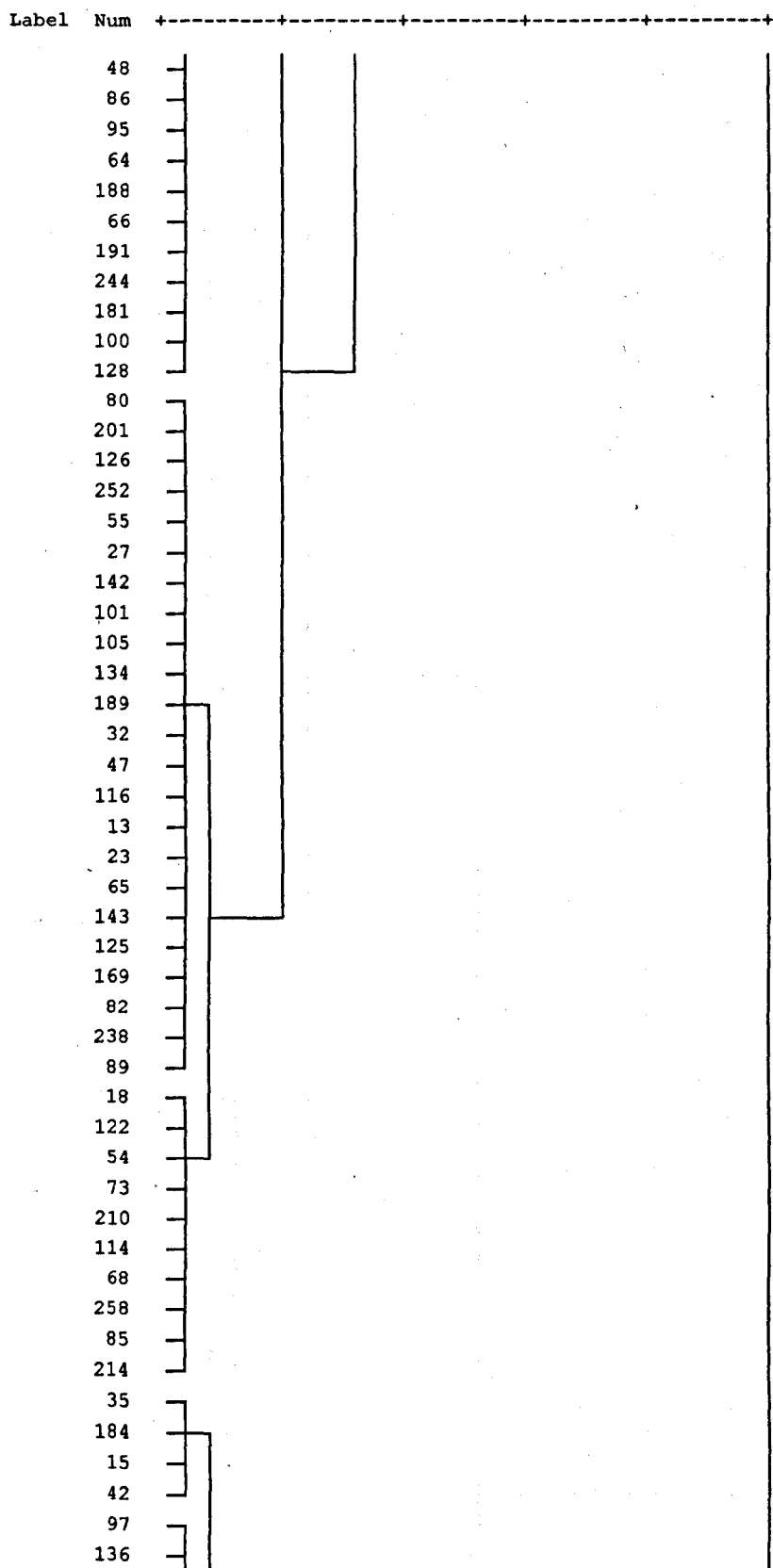
APPENDIX 5-3

Dendrogram Using Ward Method for Variables of Marketing Competitiveness

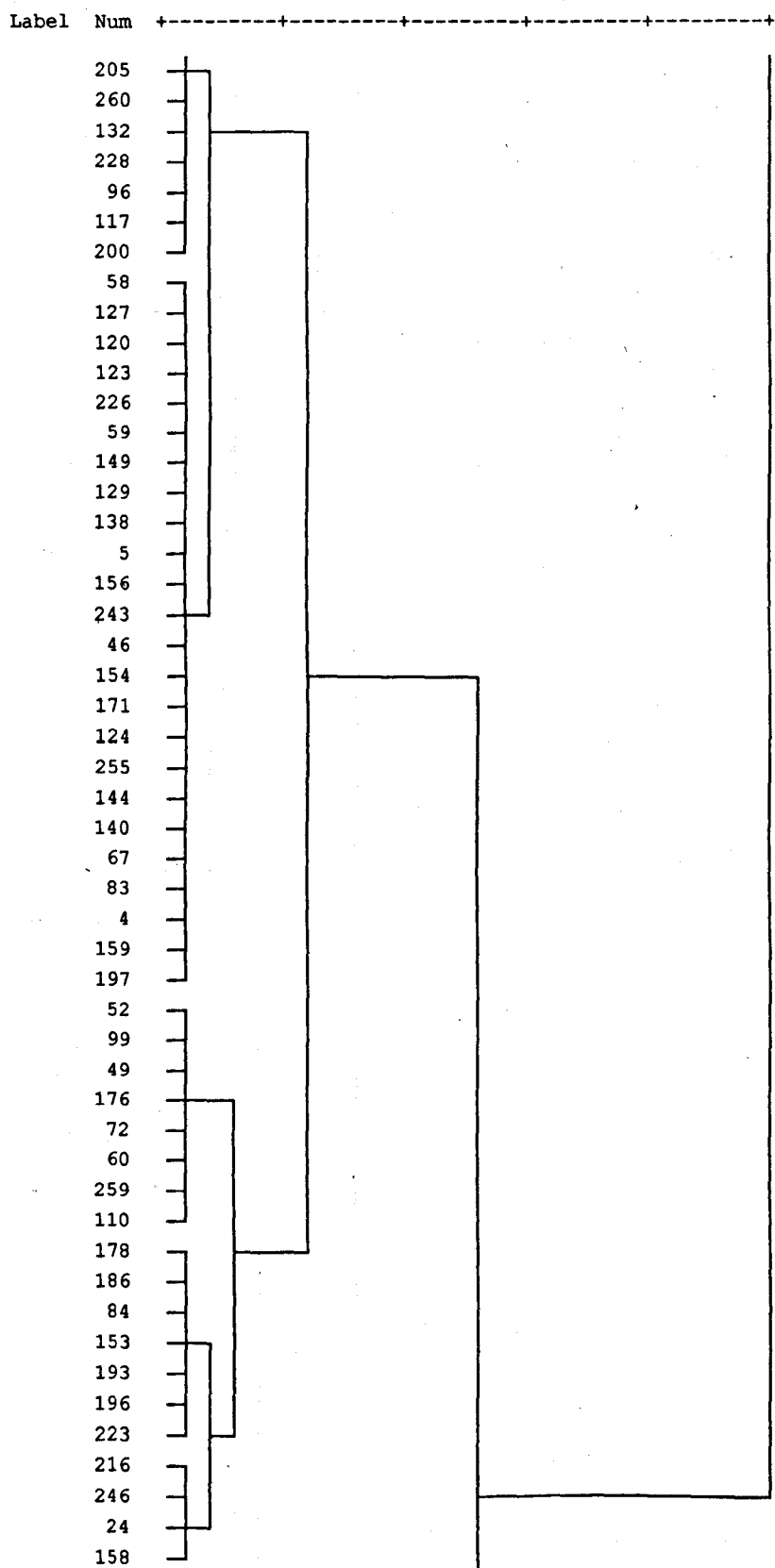
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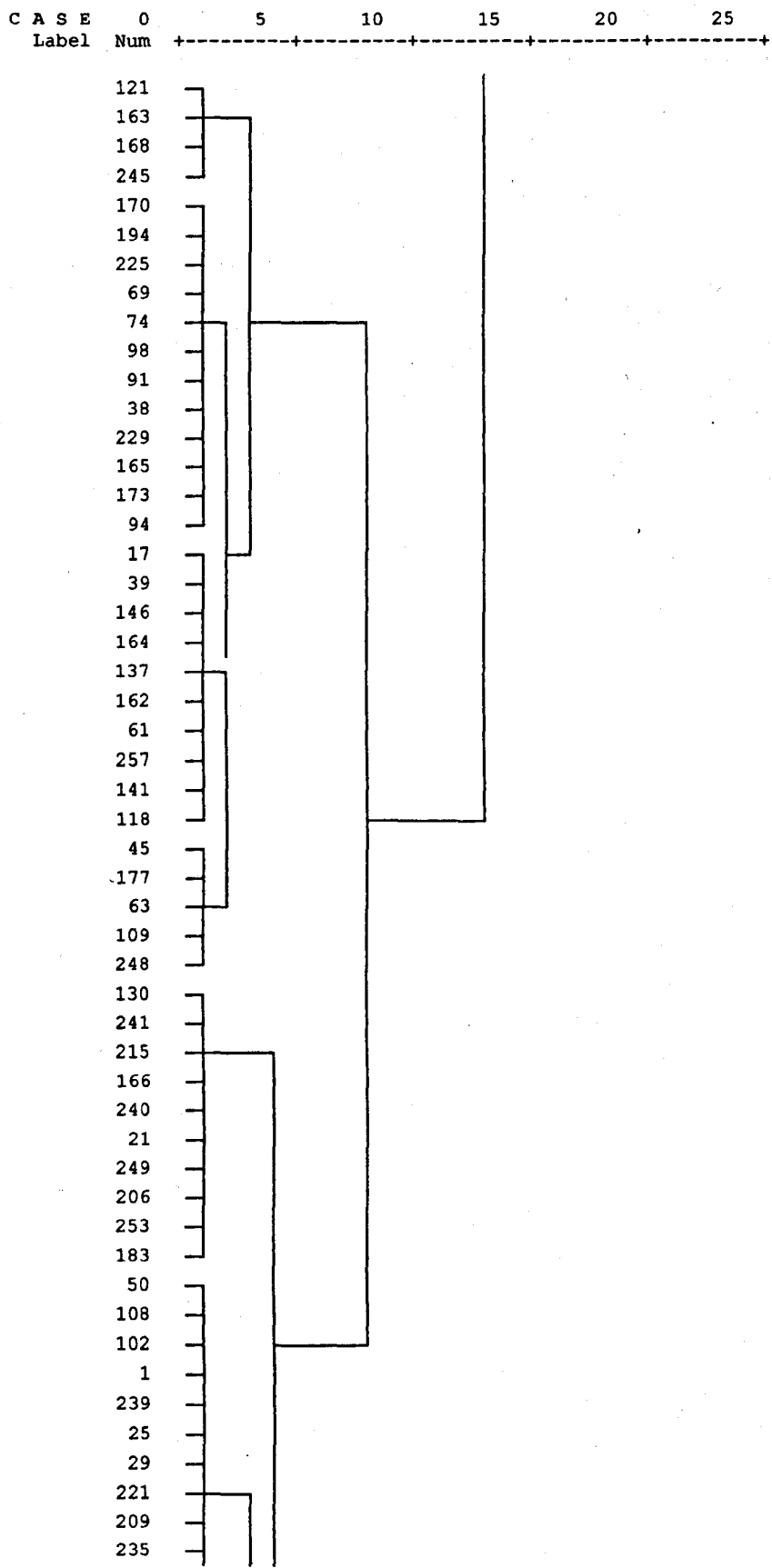






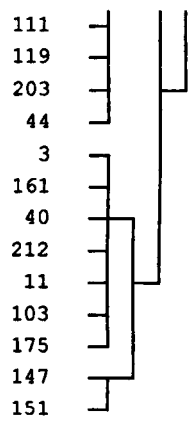
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C A S E 0 5 10 15 20 25

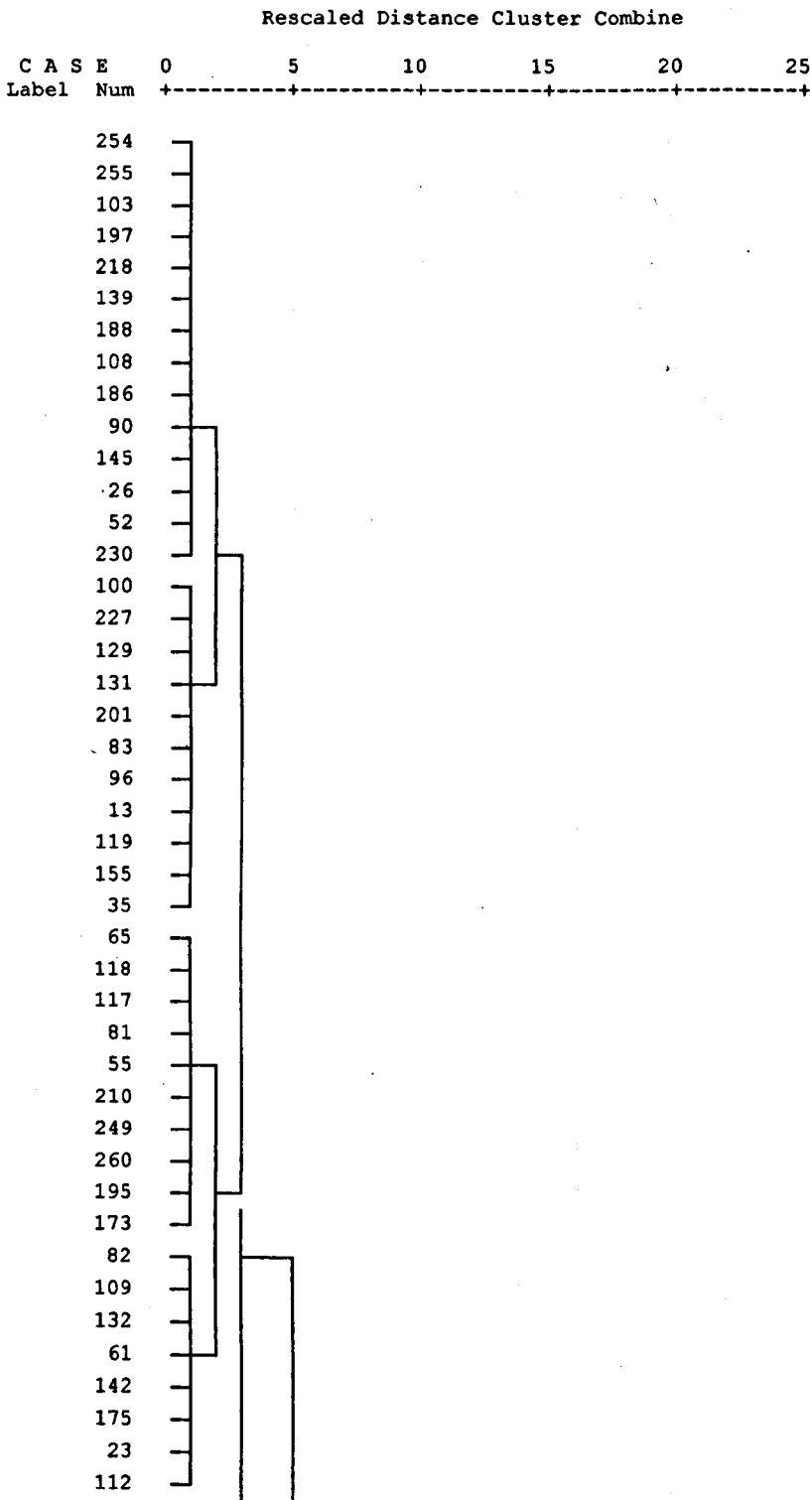
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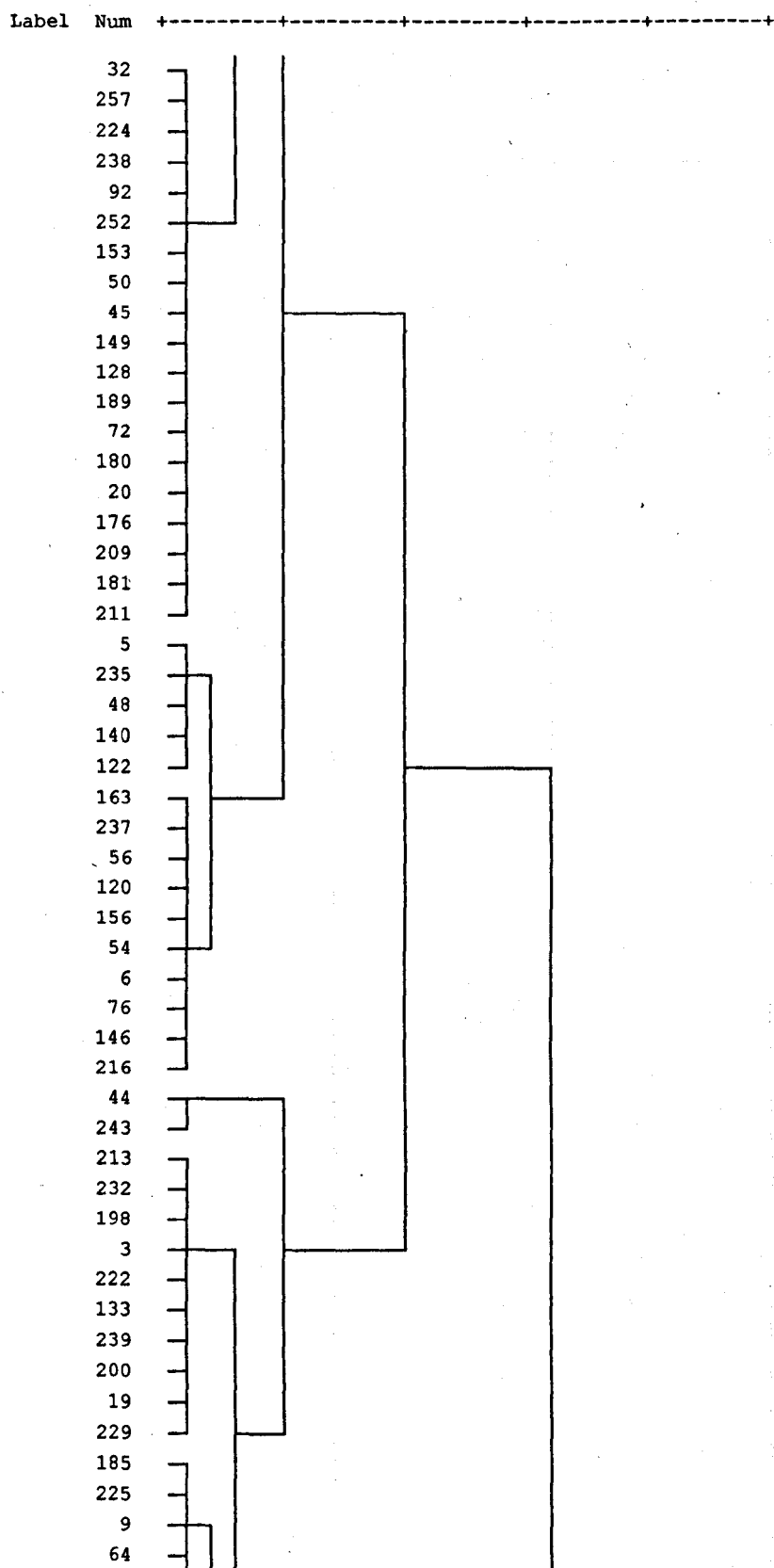
APPENDIX 5-4

Dendrogram Using Ward Method for Variables of Government Control

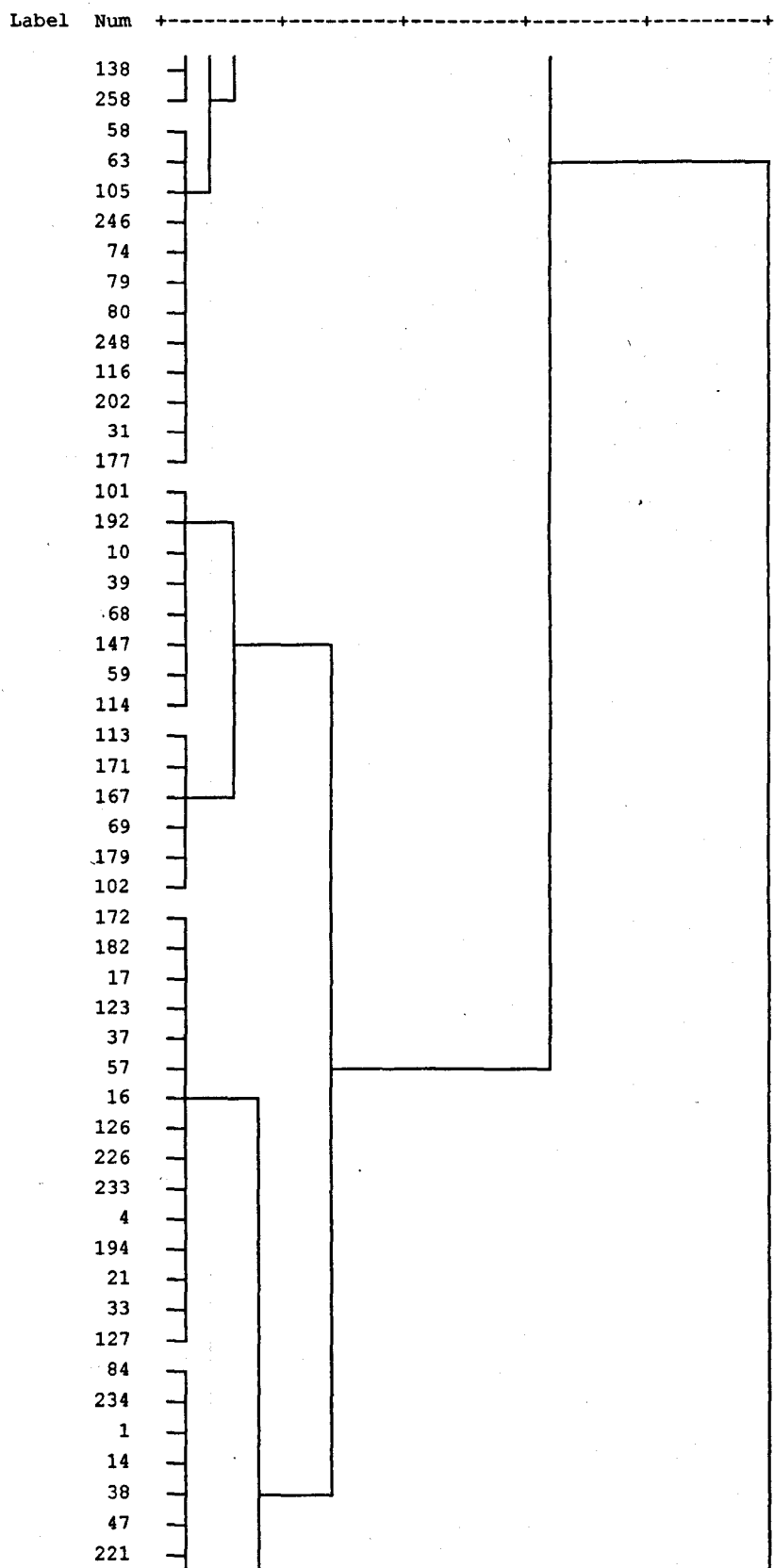
***** HIERARCHICAL CLUSTER ANALYSIS *****



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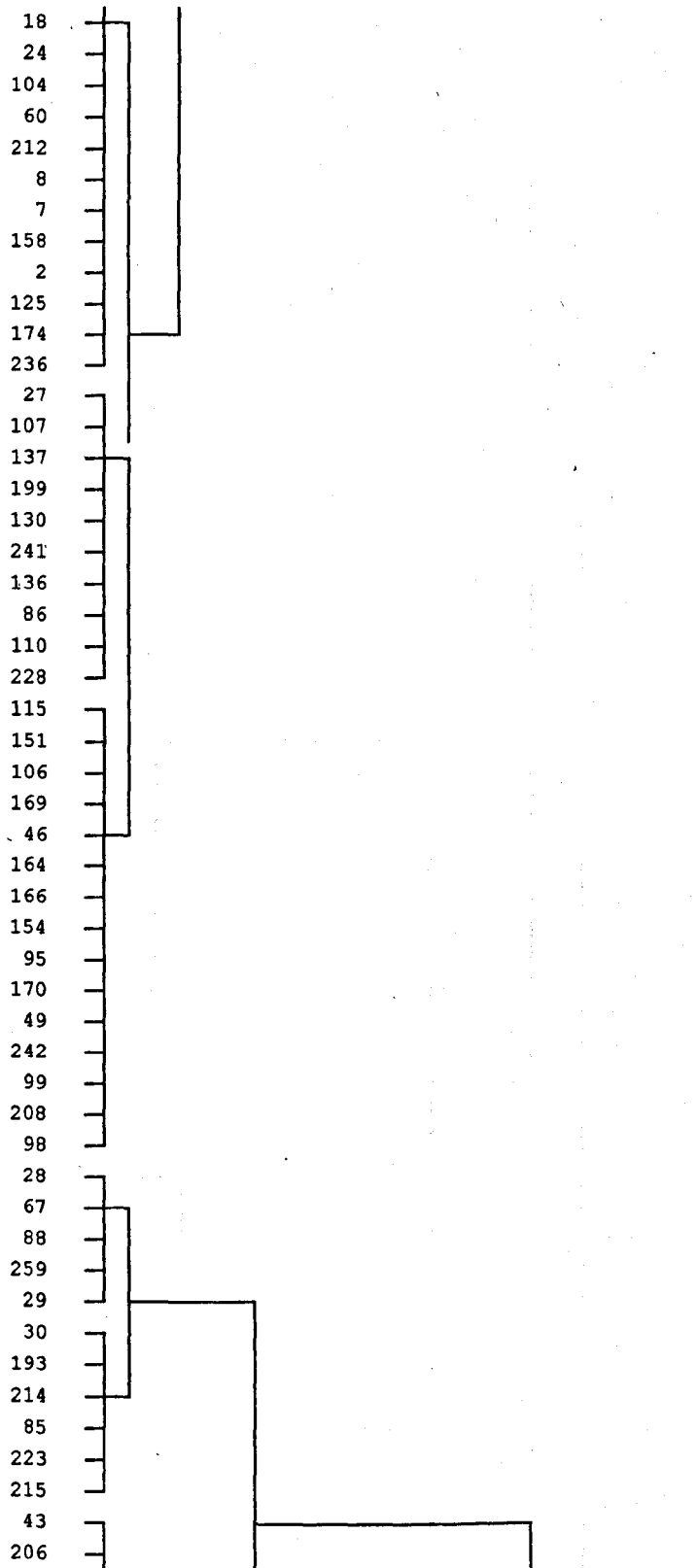


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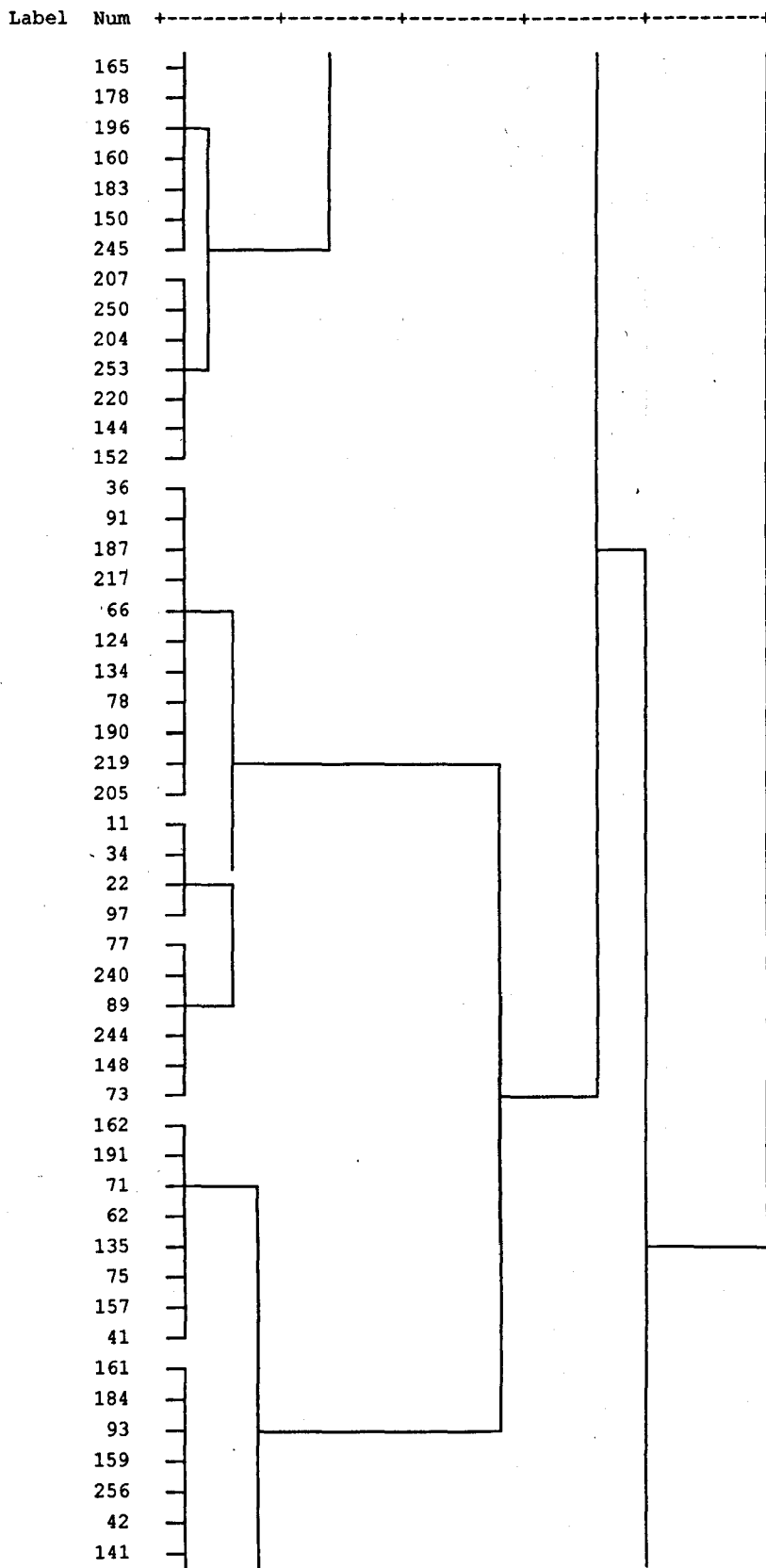


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C A S E 0 5 10 15 20 25



C A S E 0 5 10 15 20 25

